- Short-tem investments- Marketable securities, Easily converted into cash (Most liquid asset after cash,) Expected to be held one year or less. Categories: Trading Securities- Held for short time the sold, Gain: Investment increases Loss: Investment decreases; Can be debt or equity securities of another company, Earn interest or dividend

Amazon: one share Dec 7,2011- $195.32; Dec 31, 2011- 173.10; Jan 10, 2012- 179.34

| Date | Accounts and explanation | Debit | Credit |
|---|---|---|---|
| Dec 7, 2011 | Investment in Amazon Stock | 195.32 | |
| | Cash | | 195.32 |
| | Purchased Investment | | |
| | *Cash (or dividend Receivable)* | 1.00 | |
| | *Dividend Revenue* | | 1.00 |
| | *Recognize dividends earned* | | |
| 12/31/12 | Unrealized loss on investment | 22.22 | |
| | Investment in Amazon stock | | 22.22 |
| | Adjusted Investment to market value | | |
| | (195.32-173.10=22.22) | | |
| 1/10/12 | Cash | 179.34 | |
| | Loss on Sale of trading security | 15.98 | |
| | Investment in Amazon Stock | | 195.32 |
| | Sold investment in Amazon stock | | |

| **Balance Sheet** | | **Income Statement** | |
|---|---|---|---|
| Current Assets | | Revenue | $$$ |
| Cash | $$$ | Expenses | $$$ |
| Short-term investments at fair value | $$$ | Other revenue, gains and losses | $$$ |
| | | Interest revenue | $$$ |
| | | Dividend Revenue | $$$ |
| | | Unrealized gain on investments | $$$ |

Available-for-sale securities, Held to maturity securities. **Revenue Recognition**: Revenue recognized when earned Seller has transferred good or service to customer Price is fixed or determinable Collection reasonably assured, Amount is cash value of goods or services transferred, Impacted by shipping terms and payment incentive; **FOB Shipping Point**: Ownership changes hands, Revenue Recognized, when goods leave seller's shipping **FOB Destination**, Ownership changes hands Revenue Recognized, At point of delivery to customers

**Sales discounts** = Offered to customers to speed up cash flow (when they pay us), 2/10, n/30 2% discount if paid in ten days, Full amount due in 30 days

| Date | Accounts and explanation | Debit | Credit |
|---|---|---|---|
| Oct 1 | Accounts receivable | 1000 | |
| | Sales Revenue | | 1000 |
| | Sold merchandise | | |

| | | | |
|---|---|---|---|
| 10/11 | Cash | 980 | |
| | Sales Discount | 20 | |
| | Accounts receivable | | 1000 |
| | Paid invoice | | |

Sales Returns and Allowances Returned unsatisfactory or damaged merchandise

| Date | Accounts and explanation | Debit | Credit |
|---|---|---|---|
| | Sales returns and allowances | | |
| | Accounts receivable | | |
| | Customer returned damaged merchandise | | |

Net Revenue: – Gross Revenue 100,000- Sales discount (1000) Sales return (400)– Net revenue 98,600

**Receivables**: Third most liquid asset (after cash and short term investment) Monetary Claims against others, Acquired mainly by Selling goods and services (Accounts receivable) or Lending money (notes receivable) **Accounts Receivable** Amounts collectible from customers, Balance in general ledger (Control account: summarizes total amount due from all customers) Subsidiary Ledger,, Separate account for each customer **Notes Receivable:** More formal than accounts receivable, Written promise to pay a sum at the maturity date (Plus interest) Also called promissory notes **Internal Controls**: collections on account- Separate cash handling and cash accounting duties, Bookkeeper should not handle cash (Should record from remittance advices), Separate employee should open incoming mail and make deposit Another option: lockbox

**Risks**: Benefit- increase in sales cost, run a credit check, Design internal control system, Keep close eye on customers

**Uncollectible receivables** Benefit- of selling on credit Customers that do not have cash can use credit, Sales and profits increase. Cost -Company cannot collect from some customers; The cost is called uncollectible expense, Doubtful account expense, or bad debt expense. **The Allowance Method**- Records collection losses based on company's collection experience, Estimates uncollectible-account expense, Also sets up allowance for uncollectible accounts; Contra-account to accounts receivable, Show amount of receivables expected not to be collected **Net Realizable Value** Accounts receivables – allows for uncollectable accounts – accounts receivable, net; Percent of sales- Income statement approach, Estimated % uncollectible X Revenue, Debit uncollectible- account expense, credit allowance for uncollectible accounts; Aging of receivables- Balance sheet approach, Focuses on proper valuation of accounts receivable on the balance sheet, Individual customer balances analyzed based on time outstanding, Aging schedule-

Allowance for uncollectible accounts adjusted to equal amount from aging schedule, Direct Write-off Method- Waits until a specific account is uncollectible to record the expense, Inferior to allowance method, Receivables reported at full amount, Assets overstated on balance sheet, Poor matching of uncollectible-account expense against revenue, **Notes Receivable**- Current or long-term assets

| Date 2012 | Accounts and explanation | Debit | Credit |
|---|---|---|---|
| 6-1 | Notes Receivable | XX | |
| | Cash | | XX |
| 12-31 | Interest Receivable | xx | |
| | Interest Revenue | | |
| 3-1- 2013 | Cash | xx | |
| | Notes Receivable | | xx |
| | Interest Receivable | | xx |
| | Interest revenue | | xx |

**Interest:** Rates are usually expressed as an annual percent, For time p1eriods less than a year, fraction is used months/12 Often interest is computed on days x/365 Short-term investments may be divided into held-to-maturity securities, trading securities, and available-for sale securities: **True**

An unrealized gain occurs when a company sells trading security: **False** – means that investment has not been sold yet and this is market value

A company will have an unrealized loss if the fair value of an investment is greater than its costs: **False**- unrealized loss occurs if fair value less than cost

E5-21A part 1- Trading investment: Eastern Corp intends to sell the stock in a short period of time

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| Dec 15 | Short term cash investment (100x57) | 57000 | |
| | Cash | | 57000 |
| | Purchased investment | | |
| Dec 31 | Short-term investment (1000x58)-57000 | 1000 | |
| | Unrealized gain on investment | | 100 |
| | Adjusted investment to market value | | |

1. Balance sheet
   Current Assets:
      Short term investment, a market value $58,000
   Income Statement (partial)
   Other revenue and gains:
      Unrealized gain on investment $1000

ABC Company purchases a trading security for 12,000. The entry to record this transaction

Debit: Investment Credit: Cash

A) Debit to the investment account An unrealized gain: C) fair value of the trading security is more than its cost E5-23A

| Date | Accounts and Explanation | Debit | Credit |
|---|---|---|---|
| Jul 2 | Accounts receivable | 800 | |
| | Sales Revenue | | 800 |
| Jul 10 | Accounts receivable | 1500 | |
| | Sales Revenue | | 1500 |
| Jul 12 | Cash (800-16) | 784 | |
| | Sales Discount (800x2%) | 16 | |
| | Accounts Receivable | | 800 |

| | | | |
|---|---|---|---|
| Jul 15 | Sales returns and allowances | 500 | |
| | Accounts receivable | | 500 |
| Jul 20 | Cash (1000-20) | 980 | |
| | Sales discounts (1000x 2%) | 20 | |
| | Accounts receivable (1500-500) | | 1000 |

Sales Revenue (1500+800) Less: Sales returns and allowance ales discounts (20+16)=Net Sales revenues 2300-500-36= 1764 The allowances for uncollectible accounts normally have a credit balance

1) Accounts receivable 1,030,00 (debit)
   Sales Revenue 1030000 (credit)
2) Cash 895000 (debit)
   Accounts Receivable 895000 (debit)
3) Allowance for uncollectible accounts 15000 (debit)
   Account receivable 15000 (credit)
4) Uncollectible-account expense (1030000 x .02) 20,600 (debit)
   Allowance for uncollectible accounts 20600 (credit)

T/Fthere are 2 basic ways to estimate uncollectible-the direct write off method and the allowance method: **False** % of sales method (income statement) and aging schedule method (Balance sheet method)

| Date | Account and Explanation | Debit | Credit |
|---|---|---|---|
| a | Accounts Receivable | 183,000 | |
| | Sales Revenue | | 183,000 |
| b. | Cash | 133,000 | |
| | Accounts Receivable | | 133,000 |
| c. | Allowance for uncollectible accounts | 2500 | |
| | Accounts receivable | | 2500 |
| d. | Uncollectible account expense | 2290 | |
| | Allowance for uncollectible accounts | | 2290 |

d. 200+x-2500= 1790 x=2290

Under the allowance method, the entry to write off a 2600 uncollectible account includes a: D) a debit to allowance for uncollectible accounts. **The net realizable value of accounts receivable is the difference between accounts receivable and B allowance for uncollectible accounts**

A company reports accounts rellevable on the balance sheet at a net realizable value on $586,592. If its gross receivables were $612,854, then the balance in the allowance for uncollectible accounts is: A) 26,263. **Acct receivable-allowance- net realizable value**

When goods are shipped the seller recognizes FOB destination revenue when the goods leave the sellers shipping dock: False, at the destination. **ABC Company has shipped goods to one of its customers FOB shipping point. ABC company will recognize sales revenue when: B when the good leave ABC's shipping dock**. A business offers credit terms of 1/15 n/30: B **A separate account for each customer is kept in a: B subsidiary ledger**

| Date | Account and Explanation | Debit | Credit |
|---|---|---|---|
| 2/10 | Notes receivable | 150,00 | |
| | Cash | | 150,000 |
| 5/10 | Cash | 153,000 | |
| | Notes Recivable | | 150,000 |
| | Interest Revenue | | 3,000 |
| | (150,000 x.08 x 3/12) | | |

The burrower has a note payable. Interest= Principle* interest rate *(month/12)

The maturity value of a note is Principle +Interest Due

An aging of account recievable indiciates the the amount of uncollectible accounts is 3210. Tje allowance for uncollectible accounts prior to adjustmen has a credit balance of 2000 the amount of the adjusting entry should be: 1210
3210-200=1210

| | |
|---|---|
| Current Assets: | |
| Cash | $$$ |
| Accounts Receivable | $$$ |
| Inventory (1 share at 300) | 300 |

| | |
|---|---|
| Sale of 2 chairs at 500 | 1000 |
| Cost of goods sold (2x300) | 600 |
| Gross profit | 400 |

**The cost of the inventory on hand**= inventory (asset on balance sheet) The cost of inventory that's been sold = cost of goods sold, expense on the income statement, Inventory based on cost inventory on hand **Gross profit**: sales revenue minus cost of goods sold **Number of units**:- Determined by accounting records, Evidenced by physical count at year end, Consigned good: Does not include those held for another company, Does include those out on consignment, In transit goods- Depends on shipping terms

**Shipping Terms**: FOB Shipping Point: Legal Title Passes to purchaser when items leave seller's place of business, Purchaser owns good while in transit, Included in purchaser's inventory count, Purchaser part transportation cost FOB Destination: Legal title passes to purchaser when items arrive at purchaser's place of business, Seller owns goods while in transit, Included in seller's inventory count, Seller pays transportation

| Perpetual | Periodic |
|---|---|
| Used for all types of goods | Used for inexpensive goods |
| Keeps a running total of all goods bought, sold and on hand | Does not keep a running total of all goods bought, sold and on hand |
| Inventory counted at least once a year | Inventory counted at least once a year |

**Perpetual Inventory**: Bar codes on products provide information to record, Sale of item, Update of inventory record Two entries needed for each sale, Record revenue and asset received (cash or receivables), Record cost of sale and reduction of inventory

| Date | Accounts and explanation | Debit | Credit |
|---|---|---|---|
| | Inventory | 400,000 | |
| | Accounts payable | | 400,000 |
| | Purchased inventory on account | | |
| | Accounts receivable | 750,000 | |
| | Sales | | 750,000 |
| | Sold inventory on account | | |
| | Cost of goods sold | 380,000 | |
| | Inventory | | 380,000 |
| | Recorded cost of goods sold | | |

Inventory
Beg Balance 50,000 cost of goods sold 380,000
Purchases 400,000
Ending Bal 70,000

Reporting financial statements, Balance sheet

| | |
|---|---|
| Current assets | |
| Cash | $$$ |
| Accounts receivable | $$$ |
| Inventory | 70,000 |

Income statement

| | |
|---|---|
| Sales | 750,000 |
| Cost of goods | 380,000 |
| Gross profit | 370,000 |

Net sales= sales- sale returns- sale allowances- sales discount

Inventory Methods

**Average Cost**- Average cost= cost of goods available/number of units available, Cost of goods sold= number of units sold X average cost per unit, Ending inventory= number of units on hand X average cost per unit. **Specific Unit**- Used for business with unique inventory items, Cars, fine jewelry, real estate, Inventory costed at a specific price of a particular unit, Too expensive for inventories with common characteristics. **First-in, first-out (FIFO)**- Oldest items assumed to be sold first Ending inventory consists of mist recent purchase costs, milk. **Last in, first out**- Most recent items purchased are assumed to be sold first, Oldest costs in ending inventory, Road salt, Gravel pile

Begin: 75 each, $16=1200, $6966; 18.78= 6966/371

| Date | Units | Cost per unit | Total cost |
|---|---|---|---|
| Beg. Inventory | 75 tents | $16 | 1200 |
| March 3 | 95 tents | $18 | 1710 |
| March 17 | 165 tents | $20 | 3300 |
| March 23 | 36 tents | $21 | 756 |

Cost of goods sold

| | | |
|---|---|---|
| 75 tents | 16 | 1200 |
| 95 tents | 18 | 1710 |
| 148 tents | 20 | 2960 |
| 318 tents | | 5870 |

Ending inventory

| | | |
|---|---|---|
| 36 tents | 21 | 756 |
| 17 tents | 20 | 340 |

| | | |
|---|---|---|
| 53 tests | | 10% |

Increasing inventory prices

| | Cost of goods sold | Ending inventory |
|---|---|---|
| FIFO | Lowest because based on older costs, which are less expensive | Highest because based on more recent and expensive costs |
| LIFO | Highest because based on more recent costs, which are more expensive | Lowest because based on older costs, which are less expensive |

Decreasing inventory prices

| | Cost of goods sold | Ending inventory |
|---|---|---|
| FIFO | Highest because based on older costs, which are less expensive | Lowest because based on more recent and expensive costs |
| LIFO | Lowest because based on more recent costs, which are more expensive | Highest because based on older costs, which are less expensive |

**Tax advantage of LIFO**: results in lowest income, lowers income taxes, increased available cash, Comparison of inventory methods: Cost of goods sold: LIFO better matching of expense revenue, more recent costs included Ending Inventory: FIFO more up-to date inventory cost, more recent costs on the balance sheet; Principles related to **inventories:** Consistency; Disclosure- Financial statement should disclose enough information for users to make informed decisions, Information should be relevant and representational faithful, Accounting methods used, Substance of material transactions; Conservatism **Lower of cost or market (LCM)**– Inventory is reported lower, Cost of goods sold (Inventory) Wrote down inventory to market

| | Period one ending inventory over stated | Period two beginning inventory over stated |
|---|---|---|
| Sales | No effect | N/E |
| Cost of goods sod: | | |
| + Beg inventory | N/E | Over stated |
| + Purchases | N/E | N/E |
| = Goods available | N/E | Overstated |
| - Ending inventory | Overstated | N/E |
| = Cost of goods sold | Understated | Overstated |
| Gross profit | Overstated | Understated |

- Inventory is an asset and cost of goods sold is an expense, **Inventory is presented on the balance sheet at the cost of the item,** Sales Revenue is based on the sales price of the inventory while cost of goods sold is based on the cost of the inventory

BI- beginning inventory, EI ending inventory, COGS- cost of goods sold

- BI- 3 shirts ($10 each) + Purchases (2 shirts)= 5 shirts @$50 available for sale – ei (1 shirt)= COGS $40 or 4 shirts
  BI+ Purchases = available for sale –EI= VOGS
- A company purchased 400 units at $75 per unit the company sold 385 units what's is COGS? 15 x 75= 1125, 30,000-1125= 28875
- Ending inventory: $1125

Price fluctuates

- BI + Purchases= available for sale- number of units sold = ending inventory

| | FIFO | LIFO |
|---|---|---|
| COGS (expense) | Oldest units | Newest units |
| EI (asset) | Newest units | Oldest unites |

A company has a beginning inventory of 40,000 and purchases during the year of 110,000… what is the average cost per unit : (40,000 +110,00)/ (3,00+7,000)= $15.00

S6-3

BI(9)+ Purchase (27)- EI (8)= sold (28)

Cost 1350/9= $150

4320/27= $160

Total cost of sales: 1350+4320= 5670

a. 5670/(9+27)= 157.50 per unit x EI (8)= 1260
   Cogs 28X157.50 x 4410
b. FIFO- ending inventory = newest unit- EI (8) x $160= $1280
   COGS= 5670-1280= 4390
c. LIFO= ending inventory is the oldest units- 8x150= 1200

FIFO method assigns the most recent inventory cost to expense= false

- At January 31, 21o units are still on hand. What is the value of the ending inventory at January 31 if Toyland uses the FIFO method
  - 110 units @11= 1210
  - 100 units @10= 1000
  - EI= 210 at $2210
- LIFO
  - 210 unites @ $8= 1680

The lower-of-cost or-market rule requires a company to report inventories a the lower of: Historical cost or current replacement

S6-7

EI appears on the balance sheet under current assets

6500-49,00= 16,000 (added to COGS) 420,000+16,000= 436,000 COGS

COGS appears on income statement

E6-15A

Given this data, calculate costs of the ending inventory using FIFO

| Date | Item | Unit |
|---|---|---|
| 1/1 | Beginning Inventory | 30 units at $10 per unit |
| 2/25 | Purchase Inventory | 15 Units at $12 per unit |
| 5/20 | Purchase Inventory | 25 units at $13 per unit |
| 8/15 | Purchase Inventory | 20 units at $14 per unit |
| 10/17 | Purchase Inventory | 25 units at $15 per unit |
| 12/31 | Ending Inventory | 65 |

FIFO: 65 units in EI- 25 units from 10/17= 40 units left

$915, 25 ($13)+20 ($14) +20 ($13)+65

LIFO: $740

E6-19A

How many units were sold? 7+5= 12

Ending units in EI? BI 14+ Purchased 4- sold 12= EI 6

a. FIFO
   Cost of goods sold (1@$42)= $504
   EI (4 @$69)+2@$42) = $360
b. LIFO
   Cost of goods sold (4@$69)+(8@$42)= $612
   EI (6@$42)= $252

2. 12 units sold x $111= $1332 total sales

MusicWorld.Net
Income Statement
Month Ended June 30, 2012

| | |
|---|---|
| Sales Revenue (12@$111) | $1332 |
| Cost of Goods sold | $504 |
| Gross Profit (Sales Revenue-COGS) | $828 |
| Operating Expenses | $340 |
| Income before income tax (Gross profit- operating expense) | $488 |
| Income tax expense (40%) $488x.40 | $195 |
| Net income (Income before income tax- income tax expense) | $293 |

T/F the weighted-average cost per unit is calculated as the cost of goods sold divided by the number of units actually sold: False

BI + Purchases – EI= COGS

| | |
|---|---|
| a. Net sales (unchanged) | $2500 |
| b. Inventory ($80-$13) | $467 |
| c. Cost of Goods sold ($1160+$13) | $1173 |
| d. Gross profit ($2500-$1173) | $1327 |