

Problem 1:

Bank Reconciliation: (11 Marks) 30 minutes:

The cash account of ABC Corp. shows a ledger balance of \$3,999.85 on February 28, 2017. The bank statement as at that date indicates a balance of \$4,150. When the statement was compared with the cash records, the following facts were determined:

- There were bank service charges for February of \$25.
- A bank memo stated that a note receivable from RedMNM for \$900 and interest of \$36 had been collected on February 27, and the bank had made a charge of \$5.50 on the collection.
- Cheques outstanding on February 28 totalled \$2,136.05.
- On February 27, the bank charged ABC's account for a customer's uncollectible cheque amounting to \$453.20.
- Cheque no. 742 in the amount of \$491 had been entered in the company's books as \$419, and cheque no. 747 in the amount of \$58.20 had been entered in the company's books as \$582. Both cheques were issued by ABC to pay for purchases of equipment.
- Cash collected from customers for February 28 of \$2,890 was deposited in the bank by ABC's cashier. The bank processed the deposit on March 1, 2017.
- In January 2017, the bank incorrectly charged a \$27.50 Wal Corp. cheque against ABC Corp.'s account. The February bank statement indicates that the bank reversed this charge and corrected its error.

Required: show all your calculations and

- a) Prepare a bank reconciliation dated February 28, 2017, proceeding to a correct cash balance. (6.5 marks)
- b) Prepare any journal entries that are needed to adjust the ABC's accounts at February 28, 2017. (4.5 marks)

Problem 2: Receivables and Bad Debts (11.5 marks) 30 minutes:

RMV Corp is in the process of preparing its year-end financial statements. RMV's fiscal year ends on December 31 and it uses the allowance method to estimate bad debts. RMV has a collection policy where trade receivables should be collected in 45 days. Based on prior years, RMV usually books 12.5% of its trade receivables as estimated bad debts. The statement of financial position of RMV Corp. at December 31, 2015, includes a trade receivables balance of \$208,100 and an allowance for doubtful accounts credit balance of 17,300.

Transactions in 2016 include the following:

- i. Trade receivables of \$138,000 were collected. This amount includes gross sales of \$40,000 on which 2% sales discounts were allowed and the customer took advantage of the discount.
- ii. An additional \$6,700 was received in payment of an account that was written off in 2013.
- iii. Customer accounts of \$19,500 were written off during the year.

Required: show all your calculations and

- a) Prepare all necessary journal entries to reflect the information above.
- b) Record the journal entry for bad debt expense for the year ended December 31, 2016.
- c) The year ended December 31, 2016 had recorded gross sales of \$1,080,000, cost of sales of 432,000, net credit sales in the amount of \$750,000 and a cost of sales on those credit sales in the amount of \$300,000. Net earnings were \$248,000 and RMV has a tax rate of 18%. Calculate and interpret RMV's receivables turnover ratio and the average days to collect. Based on your calculation and interpretation give two suggestions to RMV.

Problem 3:

Receivables and bad debts: (13.5 marks; 23 minutes)

FCB Corporation began its fiscal year 2015 with a balance of \$475,000 in the Trade Receivables account and a balance of \$33,000 in the Allowance for Doubtful Accounts. During 2015, FCB had credit sales of \$6,675,000. Also during the year, the company wrote off \$35,500 of accounts receivable that were deemed to be uncollectible, although one customer whose \$4,000 account had been written off that same year surprised management by paying the amount in full in late September. The total cash collected throughout 2015 amounted to \$6,568,500, which includes the surprise \$4,000. FCB's objective is to collect its receivables every 30 days (the industry's average collection period is 32 days).

In preparation for the audited year-end financial statements, the controller prepared the following list of trade receivables at December 31, 2015, grouped by age:

Days Outstanding	Amount	Percentage that is probably uncollectable
Less than 16 days	\$270,000	3%
Between 16 and 30 days	117,000	8%
Between 31 and 45 days	80,000	20%
Between 46 and 60 days	38,000	30%
Between 61 and 75 days	20,000	50%
Over 75 days	25,000	100%
	Total: \$550,000	

FCB's management determined that all trade receivables that have been outstanding for more than 75 days are definitely uncollectable.

Required (Show your work):

- a) Prepare the necessary journal entries related to updating receivables and recording bad debts expense for the year ended December 31, 2015. **(5.5 marks)**
- b) Show how trade receivables would be presented on statement of financial position as at December 31, 2015. **(2 marks)**
- c) Calculate and interpret the Receivables turnover ratio and the average collection period for FCB for 2015. **(6 marks)**