

# Cash and Receivables

## Topics to be Discussed

Balance Sheet

formats

Cash

components

internal control procedures for cash

balance sheet presentation of cash

Receivables

accounts receivable

accounting for uncollectible accounts

direct write-off method

allowance method

balance sheet disclosure of receivables

## Balance Sheet

A statement of the assets, liabilities, and owners' equity of an entity as of a given date

Other titles include

Statement of Financial Position

Statement of Financial Condition

Position Statement

Balance sheet formats

<u>Account Form</u>	<u>Report Form</u>	<u>Financial Position Form</u>																											
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; text-align: center;">Assets</td> <td style="width: 50%; text-align: center;">Liabilities</td> </tr> <tr> <td style="text-align: center;">—</td> <td style="text-align: center;">Owners' Equity</td> </tr> <tr> <td style="text-align: center;">—</td> <td style="text-align: center;">—</td> </tr> </table>	Assets	Liabilities	—	Owners' Equity	—	—	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="text-align: center;">Assets</td> </tr> <tr> <td style="text-align: center;">—</td> </tr> <tr> <td style="text-align: center;">Liabilities</td> </tr> <tr> <td style="text-align: center;">Owners' Equity</td> </tr> <tr> <td style="text-align: center;">—</td> </tr> </table>	Assets	—	Liabilities	Owners' Equity	—	<table style="width: 100%;"> <tr> <td style="width: 80%;">Current Assets</td> <td style="width: 20%;"></td> </tr> <tr> <td>- Current Liabilities</td> <td style="text-align: right;">—</td> </tr> <tr> <td>Working Capital</td> <td></td> </tr> <tr> <td>+ Other assets</td> <td></td> </tr> <tr> <td>- Other liabilities</td> <td style="text-align: right;">—</td> </tr> <tr> <td>Net assets</td> <td style="text-align: right;">—</td> </tr> <tr> <td> </td> <td></td> </tr> <tr> <td>Owners' Equity</td> <td style="text-align: right;">—</td> </tr> </table>	Current Assets		- Current Liabilities	—	Working Capital		+ Other assets		- Other liabilities	—	Net assets	—			Owners' Equity	—
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Working Capital

the excess of current assets over current liabilities

## BALANCE SHEET FORMAT

	2006	2005	2004	2003
Report form .....	524	506	504	506
Account form .....	76	94	96	94
Financial position form .....	---	---	---	---
Total Companies .....	600	600	600	600

## Assets

probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events

## Current Assets

cash and other assets reasonably expected to be realized in cash or sold or consumed during one year or the normal operating cycle, whichever is longer

## Cash - Current Asset

cash is the medium of exchange

for cash to be shown as a current asset it must

be immediately available for use by management

have no restrictions on its use

the current asset "cash" includes

cash in bank

checking account

savings account

cash on hand

coins and currency

petty cash fund

change fund

foreign currency would be included unless there were severe restrictions on its use

negotiable instruments

money orders

cashiers' checks

personal checks

bank drafts

the current asset "cash" excludes

postdated checks

IOU's

postage stamps

restricted funds

cash legally restricted for additions to plant

cash equivalents

contain restrictions or penalties on their conversion to cash  
 are nearly as liquid as cash

example

money market savings certificate  
 certificates of deposit

minimum internal control procedures

separation of duties

all receipts will be deposited intact in a bank daily

all major payments will be made by check

**Balance sheet presentation of cash**

cash in bank, cash on hand, and petty cash shown as single amount

frequently combined with cash equivalents and shown as “cash and cash equivalents”

Cash - balance sheet captions

CASH - BALANCE SHEET CAPTIONS

	2006	2005	2004	2003
Cash .....	19	22	29	36
Cash and cash equivalents .....	536	528	515	505
Cash and equivalents .....	33	34	37	34
Cash includes certificates of deposit or time deposits .....	1	2	2	1
Cash combined with marketable securities .....	11	13	14	21
No amount for cash .....	---	1	3	3
Total Companies .....	600	600	600	600

Accounts Receivable

Accounting for Uncollectible Accounts

Direct Write-off Method

Year 1 - sale

Accounts Receivable - Smith	500	
Sales		500

Year 2 - write-off

Uncollectible Accounts Expense	500	
Accounts Receivable - Smith		500

makes no attempt to match revenues and expenses  
 does not result in receivables being stated at net realizable value in the balance sheet

Allowance Method

Year 1 - sale

Accounts Receivable - Smith	500	
Sales		500

year end estimate of uncollectibles

Uncollectible Accounts Expense	500	
Allowance for Doubtful Accounts		500

Year 2 - write-off

Allowance for Doubtful Accounts	500	
Accounts Receivable - Smith		500

estimating uncollectible accounts receivable

percentage of sales (total or credit)  
 percentage of accounts receivable, including aging of receivables

## DOUBTFUL ACCOUNT CAPTIONS

	2006	2005	2004	2003
Allowance for doubtful accounts .....	333	325	317	327
Allowance .....	132	141	155	154
Allowance for uncollectible accounts ...	26	25	17	20
Allowance for losses .....	13	13	16	14
Reserve .....	12	13	14	11
Reserve for doubtful accounts .....	5	4	4	2
Other caption titles .....	10	4	11	10
	531	525	534	538
Receivables shown net.....	26	23	21	21
No reference to doubtful accounts .....	43	52	45	41
Total Companies .....	600	600	600	600

## Balance sheet Disclosure of Receivables

should be disclosed on the balance sheet by source

trade receivables - amounts owed by customers for goods sold or services rendered in normal operations

nontrade receivables - arise from a variety of transactions including advances to employees, returnable deposits, etc.

## CURRENT RECEIVABLES

	2006	2005	2004	2003
<u>Trade Receivable Captions</u>				
Accounts receivable .....	303	289	297	283
Receivables .....	126	130	122	137
Trade accounts receivable .....	106	98	104	112
Accounts and notes receivable .....	49	61	56	52
No caption for current receivables.....	16	22	21	16
Total Companies .....	600	600	600	600
<u>Receivables Other Than</u>				
<u>Trade Receivables</u>				
Tax refund claims .....	63	50	61	67
Investees/affiliates .....	47	42	45	41
Contracts .....	42	39	39	36
Finance .....	28	25	30	24
Insurance claims .....	27	16	12	15
Retained interest in sold receivables ...	16	19	24	25
Vendor/suppliers .....	11	4	6	4
Asset disposals .....	4	8	11	3
Employees .....	4	5	5	2