

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	—
Assets	Liabilities																												
—	Owners' Equity																												
—	—																												
Assets																													
—																													
Liabilities																													
Owners' Equity																													
—																													
Current Assets																													
- Current Liabilities	—																												
Working Capital																													
+ Other assets																													
- Other liabilities	—																												
Net assets	—																												
Owners' Equity	—																												

Working Capital

the excess of current assets over current liabilities

BALANCE SHEET FORMAT

Dominant format: Report form

Other formats: Account form
Financial position form (rarely used)

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

Dominant title: Cash and cash equivalents

Other titles: Cash and equivalents

Cash

Cash combined with marketable securities

Cash includes certificates of deposit or time deposits

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

Dominant title:	Allowance for doubtful accounts
Other titles:	Allowance Allowance for uncollectible accounts Allowance for losses Reserve Reserve for doubtful accounts

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

Trade Receivable Captions

Dominant title:	Accounts receivable
Other titles:	Receivables Trade accounts receivable Accounts and notes receivable

Receivables Other Than
Trade Receivables

Dominant title:	Tax refund claims
Other titles:	Investees/affiliates Contracts Finance Insurance claims Asset disposals Employees