

HOMEWORK PROBLEMS 3-1 AND 3-2

Problem 3-1

Springfield Medical Center operates a nearby parking garage. Anyone is permitted to park in the parking garage. Parking charges are \$2.00 for the first two hours or part, \$1.00 for each additional hour or part to a maximum charge of \$5.00 for each 24 hour time period. For patients and visitors, the hospital will “validate” their parking tickets, permitting them to park for free. All a patient or visitor need do is bring the parking ticket to the information desk and have it stamped (with the name of the medical center). Fred has been the parking lot attendant for 7 years. He has been having some financial difficulties lately, so he decided to make a little extra money -- illegally. He had a rubber stamp produced with the name of the medical center -- virtually identical to the stamp used by the medical center to validate the parking tickets. When some of the paying customers would leave the parking deck, Fred would pocket the cash they paid and then he would stamp the ticket with the name of the medical center. Thus when the parking tickets were examined later, these tickets would be validated, and Fred would not be expected to have any money for them.

Requirements:

1. Explain how Fred might be caught
2. Indicate reasonable, cost-effective procedures that could be established to prevent such theft

Problem 3-2

The balance sheet for the Petsmart, Inc as shown in it's February 3, 2008 10-K report reveals the following information about the current assets:

<u>Assets</u>	<u>(add 000)</u>	
	February 1, 2009	February 3, 2008
Assets:		
Cash and cash equivalents	\$126,314	\$ 58,322
Receivables, net	48,609	49,341
Merchandise inventories	584,011	501,212
Deferred income taxes	28,223	28,644
Prepaid expenses and other		
current assets	<u>87,677</u>	<u>73,231</u>
Total Current Assets	<u>874,834</u>	<u>710,750</u>

The following footnote also appeared in the 10-K Report:

Cash and Cash Equivalents . . . As of February 1, 2009 and February 3, 2008, bank overdrafts of \$47.6 million and \$47.5 million, respectively, were included in accounts payable and bank overdraft in the Consolidated Balance Sheets. . . .

Required:

- a. Describe cash equivalents.
- b. How was the company able to overdraw its bank accounts by \$47.6 million at February 1, 2009 without encountering difficulties with its banks?

HOMEWORK PROBLEM 3-3

Use the internet to access the December 31, 2007 10-K for MGM Mirage. After reviewing the financial statements, including the footnotes and supporting schedules, answer the following questions:

- a. There are basically two methods of recognizing bad debt expense: (1) the direct write-off method, and (2) the allowance method. What are the deficiencies of the direct write-off method?
- b. If, during 2008, \$30,000 of MGM Mirage's accounts receivable were to be written off, what would be the effect on
 - Net income in the year of writeoff (ignore income tax effect)
_____ (increase, decrease, no effect)
 - Total assets _____ (increase, decrease, no effect)
 - Total current assets _____ (increase, decrease, no effect)
- c. The MGM Mirage 10-K includes the following information regarding the Allowance for Doubtful Accounts for accounts receivable. Based solely on the information presented below, show the journal entries, including amounts, that were most likely recorded during 2007, that affected the Allowance for Doubtful Accounts account for accounts receivable. You may assume that no accounts previously written off were subsequently collected.

Description	Balance at Beginning of Year	Provision for Doubtful Accounts	Write-offs, net of Recoveries	Balance at End of Year
Allowance for Doubtful Accounts December 31, 2007	\$90,024	\$32,910	\$(37,096)	\$85,838

HOMEWORK PROBLEM 3-4

- (a) Use the internet to access the December 31, 2007 10-K report for Hershey Company. After reviewing the financial statements, including the footnotes, answer the following questions:
1. What is a LIFO reserve? How much was the LIFO reserve as of December 31, 2007?
 2. How much higher would pre-tax income in 2007 have been had the inventory been valued at current cost rather than LIFO?
 3. If replacement cost, rather than LIFO, was used to value the inventory, what would the inventory value be for Hershey Foods. on December 31, 2007?
 4. A primary ingredient for Hershey's chocolate is cocoa beans. Given that Hershey uses the LIFO inventory method, how old are the cocoa beans in their ending inventory?
- (b) Use the internet to access the August 31, 2008 10-K report for CHS Inc. After reviewing the financial statements, including the footnotes, answer the following questions:
1. What is the amount of the LIFO reserve as of August 31, 2008?
 2. What are "liquidation of LIFO inventory quantities"?
 3. What was the effect on net income due to the liquidation of LIFO inventory in the fiscal year ending August 31, 2008? Why would this effect occur?
 4. Did the company deliberately liquidate these inventories in order to manipulate profits?