

## 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 January 31, 2010 10-K report reveals the following information about the current assets:

<u>Assets</u>	<u>(in thousands)</u>	
	January 30, 2011	January 31, 2010
<b>Assets:</b>		
Cash and cash equivalents	\$ 291,949	\$ 308,360
Short-term investments	9,708	---
Restricted cash	61,439	48,172
Receivables, net	53,971	52,232
Merchandise inventories	615,841	563,389
Deferred income taxes	44,999	36,805
Prepaid expenses and other current assets	<u>46,022</u>	<u>57,652</u>
<b>Total Current Assets</b>	<u>1,066,610</u>	<u>1,066,610</u>

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

**Cash and Cash Equivalents** . . . As of January 30, 2011 and January 31, 2010, bank overdrafts of \$32.5 million and \$42.5 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 \$32.5 million at January 30, 2011 without encountering difficulties with its banks?

### HOMEWORK PROBLEM 3-3

MGM Resorts International (formerly known as MGM Mirage), through its subsidiaries, owns and operates casino resorts in the United States. MGM Resorts International uses the allowance method to account for uncollectible accounts receivable. If, during 2011, \$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)

### HOMEWORK PROBLEM 3-4

Use the Edgar database to access the December 31, 2010 10-K report for Hershey Company. After reviewing the financial statements, including the footnotes, answer the following questions:

1. How much was the LIFO reserve as of December 31, 2010?
2. How much higher would pre-tax income in 2010 have been had the inventory been valued at current cost rather than LIFO?
3. 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?