HOMEWORK 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

HOMEWORK PROBLEMS 3-2 AND 3-3

Problem 3-2

The balance sheet for the Petsmart, Inc as shown in it's January 30, 2000 10-K Report reveals the following information about the current assets:

Assets	(add 000)	
	January 30 2000	January 31 1999
Assets:		
Cash and cash equivalents	$ 41,498	$ 153,336
Receivables	68,760	49,235
Merchandise inventories	377,298	336,058
Prepaid expenses and other Current assets	31,159	27,943
Total Current Assets	518,715	566,572

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

> Cash and Cash Equivalents . . . At January 30, 2000 and January 31, 1999, bank overdrafts of approximately $50,100,000 and $63,200,000, respectively, were included in accounts payable and bank overdraft in the accompanying consolidated balance sheets. . . .

Required:

a. Describe cash equivalents.
b. How was the company able to overdraw its bank accounts by $63,200,000 at January 31, 1999 without encountering difficulties with its banks?

HOMEWORK PROBLEMS 3-4 TO 3-5

Problem 3-4

Use the internet to access the December 31, 1999 10-K405 for Trump Hotels & Casino Resorts, Inc. 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 2000, $30,000 of Trump Hotels & Casino Resorts' 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. Based solely on the information presented in the Trump Hotels & Casino Resorts, Inc. 10-K 405, show the journal entries, including amounts, that were most likely recorded during 1999, that affected the Allowance for Doubtful Accounts account for accounts receivable. You may assume that no accounts previously written off were subsequently collected.

Problem 3-5

The Hardy Company shows the following information relating to Commodity A which it handles:

Inventory, January 1	....	50 units @ $5 each
Purchases, January 15	....	100 units @ $6 each
Purchases, January 28	....	200 units @ $7 each

The ending inventory consists of 100 units. What is the value of the inventory at the end of January for Commodity A assuming cost is determined using the:

a. first-in, first-out method
b. last-in, first-out method
c. weighted average method

HOMEWORK PROBLEM 3-6

(a) Use the internet to access the April 30, 2000 10-K report for John Wiley & Sons, Inc. 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 April 30, 2000?
2. If replacement cost, rather than LIFO, was used to value the inventory, what would the inventories value be for John Wiley & Sons, Inc. on April 30, 2000?
3. How much higher would pre-tax income in the fiscal year ended April 30, 2000 have been had the inventory been valued at replacement cost rather than LIFO?

(b) Use the internet to access the June 28, 1998 10-K report for Briggs & Stratton Corporation. After reviewing the financial statements, including the footnotes, answer the following questions:

1. What is the amount of the LIFO reserve in 1998?
2. How much higher would pre-tax income in 1998 have been had the inventory been valued at current cost rather than LIFO?

Use the internet to access the June 29, 1997 10-K report for Briggs & Stratton Corporation. After reviewing the financial statements, including the footnotes, answer the following questions:

1. What is the amount of the LIFO reserve in 1997?
2. How much higher would pre-tax income in 1997 have been had the inventory been valued at current cost rather than LIFO?

(c) Use the internet to access the January 2, 1999 10-K report for Sears Roebuck and Co. After reviewing the financial statements, including the footnotes, answer the following questions:

1. What is the amount of the LIFO reserve in fiscal year 1998?
2. What are LIFO “liquidation of inventories”?
3. Why did such a liquidation produce an increase in net income?
4. Did the company deliberately liquidate inventories to increase profits?

(d) Use the internet to access the December 31, 1998 10-K report for Hershey Foods Corp. After reviewing the financial statements, including the footnotes, answer the following questions:

1. What is the amount of the LIFO reserve in 1998?
2. 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?