

Learning Objectives

- Cash and Cash Equivalent
- Sinking Fund
- Accounts Receivables
- Notes Receivable
 - Fair Value Option
- Disposition of Accounts and Notes Receivable
- IFRS vs. US GAAP
- Appendix-Impairment of Loans

Cash and Cash Equivalents

What is Cash?

Cash

- Most liquid asset
- Standard medium of exchange
- Basis for measuring and accounting for all items
- Current asset
- Examples: coin, currency, available funds on deposit at the bank, money orders, certified checks, cashier's checks, personal checks, bank drafts and savings accounts.

Reporting Cash

Cash Equivalents

Short-term, highly liquid investments that are both

- a) readily convertible to cash, and
- a) So near their maturity that they present insignificant risk of changes in interest rates.
 - ✓ Original maturity of 3 months or less from the date of purchase

Examples: Treasury bills, Commercial paper, and Money market funds.

Reporting Cash

Restricted Cash

Companies segregate restricted cash from “regular” cash for reporting purposes.

Examples, restricted for:

(1) plant expansion, (2) retirement of long-term debt, and (3) compensating balances.



International Thoroughbred Breeders

Restricted cash and investments (See Note)

\$3,730,000

Note: Restricted Cash. At year-end, the Company had approximately \$3,730,000, which was classified as restricted cash and investments. These funds are primarily cash received from horsemen for nomination and entry fees to be applied to upcoming racing meets, purse winnings held in trust for horsemen, and amounts held for unclaimed ticketholder winnings.

Reporting Cash

Restricted Cash

- Classification in the current section is appropriate if using the cash for payment of existing or maturing obligations (within a year or the operating cycle, whichever is longer).
- On the other hand, companies show the restricted cash in the long-term section of the balance sheet if holding the cash for a longer period of time.
- Companies need to determine whether any of the cash in accounts outside the United States is restricted by regulations against exportation of currency.

Reporting Cash

Bank Overdrafts

When a company writes a check for more than the amount in its cash account.

- Generally reported as a current liability.
- Offset against cash account only when available cash is present in another account in the same bank on which the overdraft occurred.

Summary of Cash vs. Non-cash Items

Cash or Cash Equivalent	Not Part of Cash or Cash Equivalent
Coin and currency on hand (petty cash)	Legally restricted deposits
Savings accounts	NSF (non-sufficient fund) checks
Checking account	IOUs
Certificate of Deposit with an original maturity of 3 months or less	Time certificates of deposits (if original maturity greater than 3 months)
Money market funds	Restricted cash
Undeposited checks	Postdated checks
Checks written, but not mailed at year end by the company. (General Rule: whoever physically possess the checks should include the checks as cash except in the case of post dated check and Non-Sufficient Fund checks)	Bank deposits that are segregated to be used for retiring long-term obligations (e.g sinking fund)
Deposits held as compensating balances that are not legally restricted	


Summary of Cash-Related Items

Classification of Cash, Cash Equivalents, and Noncash Items		
Item	Classification	Comment
Cash	Cash	If unrestricted, report as cash. If restricted, identify and classify as current and noncurrent assets.
Petty cash and change funds	Cash	Report as cash.
Short-term paper	Cash equivalents	Investments with maturity of less than 3 months, often combined with cash.
Short-term paper	Temporary investments	Investments with maturity of 3 to 12 months.
Postdated checks and IOU's	Receivables	Assumed to be collectible.
Travel advances	Receivables	Assumed to be collected from employees or deducted from their salaries.
Postage on hand (as stamps or in postage meters)	Prepaid expenses	May also be classified as office supplies inventory.
Bank overdrafts	Current liability	If right of offset exists, reduce cash.
Compensating balances	Cash separately classified as a deposit maintained as compensating balance	Classify as current or noncurrent in the balance sheet. Disclose separately in notes details of the arrangement.

Bank Reconciliation

Schedule explaining any differences between the bank's and the company's records of cash.

Reconciling Items:

1. Deposits in transit.
 2. Outstanding checks.
 3. Bank charges and credits.
 4. Bank or Depositor errors.
 5. NSF Checks
- 
- Time Lags**

Bank Reconciliation

Reconciliation of Bank Balances Bank Reconciliation Form and Content

Balance per bank statement (end of period)		\$\$\$
Add: Deposits in transit	\$\$	
Undeposited receipts (cash on hand)	\$\$	
Bank errors that understate the bank statement balance	\$\$	\$\$
		<u> </u>
		\$\$\$
Deduct: Outstanding checks	\$\$	
Bank errors that overstate the bank statement balance	\$\$	\$\$
		<u> </u>
Correct cash balance		<u> </u>
		\$\$\$
Balance per depositor's books		\$\$\$
Add: Bank credits and collections not yet recorded in the books	\$\$	
Book errors that understate the book balance	\$\$	\$\$
		<u> </u>
		\$\$\$
Deduct: Bank charges not yet recorded in the books	\$\$	
Book errors that overstate the book balance	\$\$	\$\$
		<u> </u>
Correct cash balance		<u> </u>
		\$\$\$

Bank Reconciliation-Example

To illustrate, Nugget Mining Company's books show a cash balance at the Denver National Bank on November 30, 2014, of \$20,502. The bank statement covering the month of November shows an ending balance of \$22,190. An examination of Nugget's accounting records and November bank statement identified the following reconciling items.

- 1. A deposit of \$3,680 that Nugget mailed November 30 does not appear on the bank statement.
- 2. Checks written in November but not charged to the November bank statement are:

Check #7327	\$ 150
#7348	4,820
#7349	31

- 3. Nugget has not yet recorded the \$600 of interest collected by the bank November 20 on Sequoia Co. bonds held by the bank for Nugget.
- 4. Bank service charges of \$18 are not yet recorded on Nugget's books.
- 5. The bank returned one of Nugget's customer's checks for \$220 with the bank statement, marked "NSF." The bank treated this bad check as a disbursement.
- 6. Nugget discovered that it incorrectly recorded check #7322, written in November for \$131 in payment of an account payable, as \$311.
- 7. A check for Nugent Oil Co. in the amount of \$175 that the bank incorrectly charged to Nugget accompanied the statement.

Bank Reconciliation-Example

NUGGET MINING COMPANY
BANK RECONCILIATION
DENVER NATIONAL BANK, NOVEMBER 30, 2014

Balance per bank statement (end of period)			\$22,190
Add: Deposit in transit	(1)	\$3,680	
Bank error—incorrect check charged to account by bank	(7)	<u>175</u>	<u>3,855</u>
			26,045
Deduct: Outstanding checks	(2)		<u>5,001</u>
Correct cash balance			<u>\$21,044</u>
Balance per books			\$20,502
Add: Interest collected by the bank	(3)	\$ 600	
Error in recording check #7322	(6)	<u>180</u>	<u>780</u>
			21,282
Deduct: Bank service charges	(4)	18	
NSF check returned	(5)	<u>220</u>	<u>238</u>
Correct cash balance			<u>\$21,044</u>

Sinking Fund

Sinking Fund

Businesses occasionally accumulate a fund of cash and/or investments for retirement of bonds in this problem. These funds are referred to as “sinking funds.”

Sinking fund are reported as non-current asset of the balance sheet.

The sinking fund is increased when periodic additions are made to the fund and when revenue is earned on the investments held in the fund.

When cash is used to purchase investments, the components of the fund change (i.e., cash is invested and replaced by bonds or other securities), but the total fund balance is not affected.

Accounts Receivables

Receivables

Receivables - Claims held against customers and others for money, goods, or services.

Oral promises of the purchaser to pay for goods and services sold.

Accounts Receivable

Written promises to pay a sum of money on a specified future date.

Notes Receivable

Receivables

Nontrade Receivables

1. Advances to officers and employees.
2. Advances to subsidiaries.
3. Deposits to cover potential damages or losses.
4. Deposits as a guarantee of performance or payment.
5. Dividends and interest receivable.
6. Claims against:
 - a) Insurance companies for casualties sustained.
 - b) Defendants under suit.
 - c) Governmental bodies for tax refunds.
 - d) Common carriers for damaged or lost goods.
 - e) Creditors for returned, damaged, or lost goods.
 - f) Customers for returnable items (crates, containers, etc.).

Recognition of Accounts Receivables

Trade Discounts

- Reductions from the list price
- Not recognized in the accounting records
- Customers are billed net of discounts



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