**Problem 6 – 5A Internal Control**

Abbott Inc. is expanding and needs to hire more personnel in the accounting office. Barbara Barker, the chief accounting clerk, knew that her cousin Cheryl was looking for a job. Barbara and Cheryl are also roommates. Barbara offered Cheryl a job as her assistant. Barbara will be responsible for Cheryl’s performance reviews and training.

Required:

1. List some problems with the proposed personnel situations in the accounting department.
2. Explain why accountants are concerned with the hiring of personnel. What suggestions would you make to improve internal control at Abbott?
3. How would you explain to Barbara and Cheryl that they personally are not the problem?

**Problem 7 -3 Accounts Receivables Turnover for Coca Cola and PepsiCo**

The following information was summarized from the 2006 annual report of the Coca-Cola Company:

(in millions)

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Trade accounts receivable, less allowances of $63 and $72, respectively

December 31, 2006 $2,587

December 31, 2005 2,281

Net operating revenues for the year ended December 31:

2006 24,088

2005 23,104

The following information was summarized from the fiscal year 2006 annual report of PepsiCo:

(in millions)

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Accounts and notes, receivable, net

December 30, 2006 $3,725

December 31, 2005 3,261

Net revenue for the year ended:

December 30, 2006 35,137

December 31, 2005 32,562

Required:

1. Calculate the accounts receivable turnover ratios for Coca-Cola and PepsiCo for 2008.
2. Calculate the average collective period, in days, for both companies for 2006. Comment on the reasonableness of the collection periods for these companies considering the nature of their business.
3. Which company appears to be performing better? What other information should you consider in determining how these companies are performing?

**Problem 7-7 Effects of Changes in Receivable Balances on Statement of Cash Flows**

Stegner Inc. reported net income of $130,000 for the year ended December 31, 2008. The following items were included on Stegner’s balance sheets at December 31, 2008 and 2007:

12/31/08 12/31/07

Cash $105,000 $110,000

Accounts receivables 223,000 83,000

Notes receivables 99,000 100,00

Stegner uses the indirect method to prepare its statement of cash flows. Stegner does not have any other current assets or current liabilities and did not enter into any investing or financing activities during 2008.

Required:

1. Prepare Stegner’s 2008 statement of cash flows.
2. Explain why cash decreased during a profitable year.