Unit 3 Assignment Questions

Problem 6-5 pg 318

Internal Control

At Morris Mart Inc., all sales are on account. Mary Morris-Manning is responsible for mailing invoices to customers, recording the amount billed, opening mail, and recording the payment. Mary is very devoted to the family business and never takes off more than one or two days for a long weekend. The customers know Mary and sometimes send personal notes with their payments. Another clerk handles all aspects of accounts payable. Mary’s brother, who is president of Morris Mart, has hired an accountant to help with expansion.

**Required**

1. List some problems with the current accounts receivable system.
2. What suggestions would you make to improve internal control?
3. How would you explain to Mary that she personally is not the problem?

Problem 7-3 pg. 355 Accounts Receivable Turnover for Coca-Cola and PepsiCo

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

 In millions

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 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 2006.
2. Calculate the average collection 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 pg.356 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 receivable 223,000 83,000

 Notes receivable 95,000 100,000

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. Draft a brief memo to the owner to explain why cash decreased during a profitable year.