

## CHAPTER 4 – Audit of Receivables

### Problem 1

The accounts receivable of FRANCO COMPANY were stated at P1,467,000 in a balance sheet submitted to a banker for credit. You are called upon to audit the report and, upon analysis, the asset was found to consist of the following items:

Due from customers on open account	P 1,125,000
Acknowledged claim for damages	22,500
Due from consignee at billed price – cost price being P22,500	30,000
Investment in and advances to affiliated company	150,000
Loans to officers and employees	13,500
Deposits with municipalities – bids for contracts	67,500
Unpaid capital stock subscriptions	60,000
Advances to creditors for merchandise purchased but not received	24,000
Cash advanced to salesmen for traveling expenses	4,500
Allowance for doubtful accounts	( 30,000)
	<u>P1,467,000</u>

The amount of P1,125,000 due from customers was the remaining balance after deducting accounts with credit balances of P6,000.

During your examination, you noted that on December 31, the company assigned P300,000 of customers' accounts to secure a 17%, P240,000 note payable. A 1% commission based on the accounts assigned was charged and deducted from the cash received. The client recorded this transaction by a debit to cash and a credit to notes payable.

### Questions

- How much is the Accounts Receivable (gross) balance at December 31?  
a. P 759,000                      b. P 789,000                      c. P 1,101,000                      d. P 1,131,000
- The total current non-trade receivable balance at December 31 is:  
a. P 64,500                      b. P 96,000                      c. P 120,000                      d. P 192,000
- The liability for the accounts receivable – assigned is:  
a. P 237,000                      b. P 240,000                      c. P 243,000                      d. P 300,000
- The total non-trade receivable balance at December 31 is:  
a. P 342,000                      b. P 318,000                      c. P 313,500                      d. P 245,000

### Solution

(1) Claims Receivable	22,500	
Accounts receivable		22,500
(2) Sales	30,000	
Accounts receivable		30,000
(3) Advances to affiliates	150,000	
Accounts receivable		150,000
(4) Receivables - officers/employee	13,500	
Accounts receivable		13,500
(5) Deposits for contracts bidding	67,500	
Accounts receivable		67,500