

## Vol. 1, Chapter 5 – The Balance Sheet

### Problem 1: Solution

<u>Assets</u>	<u>Major Classification</u>
Construction in progress	Property and equipment
Cash advance to affiliated co.	Noncurrent receivable
Petty cash	Current assets
Trade receivables	Current assets
Building	Property and equipment
Cash surrender value of life insurance	Other assets
Notes receivable--long-term	Noncurrent receivable
Office supplies	Current assets
Land	Property and equipment
Unamortized franchise costs	Other assets
Organizational costs	Other assets
Food inventory	Current assets
Prepaid insurance	Current assets
Leasehold improvements	Property and equipment

### Problem 2: Solution

Daytime Café  
Balance Sheet  
December 31, 20X6

#### **ASSETS**

Current Assets:	
Cash	\$ 15,000
Accounts Receivable	6,000
Inventories	30,000
Prepaid Insurance	<u>10,000</u>
Total Current Assets	61,000
Property and Equipment:	
Land	600,000
Buildings	600,000
Equipment	300,000
Less: Accumulated Depreciation	(100,000)
Net Property and Equipment	<u>1,400,000</u>
<b>Total Assets</b>	<b><u>\$1,461,000</u></b>

**Problem 2: Solution** (continued)

**LIABILITIES AND OWNERS' EQUITY**

Current Liabilities:	
Accounts Payable	\$ 12,000
Wages Payable	15,000
Mortgage Payable--current	50,000
Taxes Payable	<u>7,000</u>
Total Current Liabilities	84,000
Long-Term Liabilities:	
Mortgage Payable--long-term	<u>800,000</u>
Total Long-Term Liabilities	<u>800,000</u>
<b>Total Liabilities</b>	884,000
Owners' Equity:	
G. Day, Capital	577,000
Total Owners' Equity	<u>577,000</u>
<b>Total Liabilities and Owners' Equity</b>	<u><u>\$1,461,000</u></u>

**Problem 3: Solution**

1. Retained Earnings decreases by \$50,000. Dividends Payable increases \$50,000.
2. Cash increases \$10,000. Accounts Receivable decreases \$10,000.
3. Equipment increases \$30,000. Cash decreases \$5,000. Notes Payable increases \$25,000.
4. Cash increases \$20,000. Inventory decreases. Retained Earnings increases.
5. Food Inventory increases \$2,000. Accounts Payable increases \$2,000.
6. Cash decreases \$10,000. Wages Payable decreases \$10,000.
7. Supplies (inventory) increases \$2,000. Accounts Payable increases \$2,000.
8. Cash decreases \$20,000. Treasury Stock increases \$20,000. Common Stock decreases \$10,000.
9. Long-term Debt decreases \$40,000. Current maturities of long term debt increases \$40,000.
10. Cash decreases \$1,000. Accounts Payable decreases \$1,000.

**Problem 4: Solution**

**OWNERS' EQUITY**

5% Cumulative Preferred Stock, \$1 par value, authorized 50,000 shares; issued and outstanding 10,000 shares	\$ 500,000	(1)
Common Stock, \$1 par value, authorized 100,000 shares; issued and outstanding 20,000 shares	500,000	(2)
Retained Earnings	<u>175,000</u>	(3)
Total Owners' Equity	<u>\$1,175,000</u>	

(1) 10,000 shares × \$50 per share = \$500,000

(2) 20,000 shares × \$25 per share = \$500,000

(3) Dividends declared:

\$500,000 × 5% = \$25,000

Net income - dividends declared = retained earnings

\$200,000 - \$25,000 = \$175,000

**Problem 5: Solution**

Damitio Inn  
Balance Sheet for year ended  
December 31, 20X3

**Assets**

**Current Assets**

Cash	\$ 10,000	
Accounts Receivable	150,000	
Allowance for Doubtful Accts.	(10,000)	
Food Inventory	50,000	
Prepaid Insurance	<u>12,000</u>	
Total Current Assets		\$212,000

**Noncurrent Receivables**

Investments		100,000
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**Property and Equipment**

Land	300,000	
Building	14,000,000	
Equipment	800,000	
Less: Accumulated depr.		
Accumulated depr.—Building	(2,500,000)	
Accumulated depr.—Equipment	<u>(200,000)</u>	
Total Property and Equipment		12,400,000

**Other Assets**

Deferred Income Taxes	50,000	
Organization Costs	<u>50,000</u>	
Total Other Assets		<u>100,000</u>
Total Assets		<u>\$12,812,000</u>

**Liabilities**

**Current Liabilities**

Accounts Payable	50,000	
Wages Payable	20,000	
Income Taxes Payable	30,000	
Current Matur. of Long Term Debt	<u>80,000</u>	
Total Current Liabilities		180,000

**Long Term Debt**

Net of current maturities		9,920,000
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**Other Long Term Liabilities**

Deferred Income Taxes		<u>150,000</u>
Total Liabilities		\$10,250,000

**Owners' Equity**

Common Stock	500,000	
Paid-in Capital in		
Excess of Par	1,000,000	
Retained Earnings	1,062,000	
Total Owners' Equity		<u>2,562,000</u>

<b>Total Liabilities and Equity</b>		<u>\$12,812,000</u>
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**Problem 6: Solution**

Red Mountain Motel  
Common-Size Balance Sheet  
December 31, 20X1

**ASSETS**

Current Assets:

Cash	\$ 12,500	1.4%
Accounts Receivable	15,000	1.7%
Cleaning Supplies	<u>2,500</u>	<u>0.3%</u>
Total Current Assets	30,000	3.4%

Property and Equipment:

Land	120,000	13.7%
Building	800,000	91.4%
Furnishings and Equipment	50,000	5.7%
Less: Accumulated Depreciation	<u>(125,000)</u>	<u>-14.3%</u>
Net Property and Equipment	<u>845,000</u>	<u>96.6%</u>
<b>Total Assets</b>	<b><u>\$ 875,000</u></b>	<b><u>100.0%</u></b>

**LIABILITIES AND OWNERS' EQUITY**

Current Liabilities:

Notes Payable	\$ 23,700	2.7%
Accounts Payable	8,000	0.9%
Wages Payable	<u>300</u>	<u>0.1%</u>
Total Current Liabilities	32,000	3.7%

Long-Term Liabilities:

Mortgage Payable	<u>420,000</u>	48.0%
<b>Total Liabilities</b>	<b><u>452,000</u></b>	<b><u>51.7%</u></b>

Owners' Equity:

R. Mountain, Capital at January 1, 20X1	384,500	43.9%
Net Income for 20X1	<u>38,500</u>	<u>4.4%</u>
R. Mountain, Capital at December 31, 20X1	<u>423,000</u>	<u>48.3%</u>
<b>Total Liabilities and Owners' Equity</b>	<b><u>\$ 875,000</u></b>	<b><u>100.0%</u></b>

**Problem 7: Solution**

1. Accounts Receivable	\$100,000
Less: Allowance for Doubtful Accounts	(3,000)
Beverage Inventory	15,000
Cash	15,000
Food Inventory	25,000
Prepaid Insurance	6,000
Notes Receivable	35,000
Short-Term Investments	<u>50,000</u>
Total Current Assets	<b><u>\$243,000</u></b>

**Problem 7: Solution** (continued)

- |                           |                  |
|---------------------------|------------------|
| 2. Accounts Payable       | \$ 30,000        |
| Accrued Expenses          | 15,000           |
| Advanced Deposits         | 12,000           |
| Current Maturities--LTD   | 40,000           |
| Income Taxes Payable      | 4,000            |
| Notes Payable             | <u>25,000</u>    |
| Total Current Liabilities | <u>\$126,000</u> |
3. Current Assets - Current Liabilities = Net Working Capital  
\$243,000 - \$126,000 = \$117,000
4. Current Assets / Current Liabilities = Current Ratio  
\$243,000 / \$126,000 = 1.93 times

**Problem 8: Solution**

1. (Cost - Salvage Value) / Life = Straight-Line Depreciation  
Expense per Year
- $$(\$2,000,000 - 0) / 5 = \$400,000$$
- 1 / Life = Annual Depreciation Rate  
1 / 5 = .2
2. Net Book Value × 2 (Straight-Line Rate) = Double Declining  
Depreciation Expense  
\$2,000,000 × 2(.2) = \$800,000
3. Income Tax Expense                   \$120,000                   (1)  
    Deferred Income Taxes                                   \$120,000
- (1)                   \$800,000 - \$400,000 = \$400,000  
                      \$400,000 × 30% = \$120,000

**Problem 9: Solution**

Spartan Inn  
Balance Sheet  
December 31, 20X4

<u>Assets</u>		
Current Assets		
Cash	\$ 5,000	
Marketable securities	25,000	
Accounts receivable	80,000	
Inventories	15,000	
Prepaid expenses	<u>8,000</u>	
Total Current Assets		\$133,000
Property and Equipment		
Land	80,000	
Building	500,000	
Furnishings and equipment	200,000	
Less: Accumulated depreciation	<u>150,000</u>	
Net property and equipment		630,000
Other Assets		
Other—franchise fees	<u>15,000</u>	
Total Assets		<u>\$778,000</u>

<u>Liabilities and Owner's Equity</u>		
Current Liabilities		
Accounts payable	\$ 20,000	
Income taxes payable	10,000	
Accrued expenses	<u>10,000</u>	
Total Current Liabilities		40,000
Long-Term Debt		
Bonds payable		300,000
Deferred Income Taxes		20,000
Owner's Equity		
Jerry Spartan, Capital (12/31/X4)		<u>\$418,000</u>
Total Liabilities and Owner's Equity		<u>\$778,000</u>

**Problem 10: Solution**

Singh Park Hotel  
Statement of Retained Earnings  
For the year ended December 31 20X2

Retained Earnings, Jan. 1, 20X2	\$300,000
Net Income for 20X2	280,000
Dividends declared during 20X2	<u>(230,000)</u>
Retained Earnings, Dec. 31, 20X2	<u>\$350,000</u>

**Problem 11: Solution**

KRS, Inc.  
Comparative Balance Sheets  
December 31, 20X2 and 20X1

<u>20X2</u>	<u>20X2</u>	<u>20X1</u>	<u>Change from 20X1 to</u>	
			<u>Amount</u>	<u>Percentage</u>
<u>Assets</u>				
Current Assets				
Cash	\$ 20,768	\$ 16,634	\$ 4,134	24.85%
Marketable Securities	10,496	10,396	100	0.96
Accounts Receivable	11,618	16,105	(4,487)	-27.86
Inventories	18,554	14,554	4,000	27.48
Prepaid Expenses	<u>3,874</u>	<u>4,158</u>	<u>(284)</u>	<u>-6.83</u>
Total	65,310	61,847	3,463	5.60
Property and Equipment				
Land	116,435	116,435	-0-	0.00
Building	1,007,090	1,007,090	-0-	0.00
Operating Equipment	284,934	269,255	15,679	5.82
Less: Accumulated Depreciation	<u>(537,849)</u>	<u>(453,263)</u>	<u>(84,586)</u>	<u>18.66</u>
Total	<u>870,610</u>	<u>939,517</u>	<u>(68,907)</u>	<u>-7.33</u>
Total Assets	<u>\$ 935,920</u>	<u>\$ 1,001,364</u>	<u>\$ (65,444)</u>	<u>-6.54%</u>
<u>Liabilities</u>				
Current Liabilities				
Accounts Payable	\$ 12,945	\$ 13,265	\$ (320)	-2.41%
Accrued Expenses	1,039	2,047	(1,008)	-49.24
Current Portion of Long-Term Debt	<u>20,060</u>	<u>20,407</u>	<u>(347)</u>	<u>-1.70</u>
Total	34,044	35,719	(1,675)	-4.69
Long-Term Debt	533,369	553,429	(20,060)	-3.62
Deferred Income Taxes	<u>7,927</u>	<u>8,163</u>	<u>(236)</u>	<u>-2.89</u>
Total Liabilities	575,340	597,311	(21,971)	-3.68
<u>Owners' Equity</u>				
Common Stock	211,200	211,200	-0-	0.00
Retained Earnings	<u>149,380</u>	<u>192,853</u>	<u>(43,473)</u>	<u>-22.54</u>
Total Owners' Equity	<u>360,580</u>	<u>404,053</u>	<u>(43,473)</u>	<u>-10.76</u>
Total Liabilities and Owners' Equity	<u>\$ 935,920</u>	<u>\$ 1,001,364</u>	<u>\$ (65,444)</u>	<u>-6.54%</u>



### Problem 12: Solution

1. \$51,000
2. \$30,500
3.  $\$30,500 - \$51,000 = (\$20,500)$
4. \$8,000
5. \$8,000
6.  $\$325,000 - \$64,000 = \$261,000$
7.  $\$8,000 + \$80,500 = \$88,500$

### Problem 13: Solution

1. There is not enough information to determine this.
2. Current Assets = Cash + Receivables \$136,500
3. Net working capital = Current assets - Current Liab.  
 $\$136,500 - (\$18,000 + \$25,000 + \$5,000) =$  \$88,500
4. Beginning Accounts Payable is \$18,000. Ending  
A/P is \$21,000. Therefore, cash increases by: \$3,000
5. Net book value = Equipment - Depreciation  
 $\$925,000 - \$64,000 =$  \$861,000
6. Net Earnings = Change in RE + Dividends payable  
 $\$27,000 + \$6,000 =$  \$33,000
7. Change in common stock \$5,000  
Change in paid-in capital \$25,000  
 $(\$20,000 + \$5,000)/10,000$  \$2.50/share
8. Note payable beginning X2 \$675,000  
Note payable X2 (reclassified to current) 42,000  
Note payable ending X2 690,000  
 $\$675,000 - \$42,000 = \$633,000$   
 $\$633,000 + \text{new LTD} = \$690,000$   
New long-term debt =  $\$690,000 - \$633,000 =$  \$57,000
9. Gain on sale = selling price - NBV  
 $\$12,000 - \$10,000 =$  \$2,000
10. Equipment beginning X2 \$800,000  
Equipment ending X2 925,000  
Cost of equipment sold during 20X2 25,000  
New purchases =  $\$925,000 - (\$800,000 - \$25,000) =$  \$150,000
11. Depreciation Expense in X2 = change in Depr. for X2  
Accumulated depreciation beginning X2 \$20,000  
Accumulated depreciation ending X2 64,000  
Written off depreciation 15,000  
Depreciation Expense X2 = \$59,000

**Problem 14: Solution**

1. Current assets = current liabilities × current ratio  
=  $1.2 \times \$105,380$   
=  $\$126,456$
  
2. Cash + Inventory + Accounts Receivable = Current Assets  
 $\$49,765 + \$36,072 + \$15,491 + \text{Accounts Receivable} = \$126,456$   
Accounts Receivable =  $\$126,456 - (\$49,765 + \$36,072 + \$15,491)$   
=  $\$25,128$
  
3.  $.3 \times \text{Total assets} = \text{current assets}$   
 $.3 \times \text{Total assets} = \$126,456$   
Total assets =  $\$126,456 \div .3 = \underline{\$421,520}$
  
4. Owners' Equity = Assets - Current Liabilities - Long-Term Debt  
=  $\$421,520 - \$105,380 - \$60,000$   
=  $\$256,140$

**Problem 15: Solution**

1.  $-\$2,000$
2.  $\$20,000$
3.  $\$140,000$
4.  $\$180,000$
5.  $\$5,000$
6.  $\$18,700$
7.  $\$11,700$
8.  $\$8,700$

**Problem 16: Solution**

Lancer's Balance Sheet  
December 31, 20X3

		<u>Assets</u>	
Current Assets:			
	Cash	\$ 5,000	
	Marketable securities	10,000	
	Accounts receivable (net)	90,000	
	Food inventory	15,000	
	Prepaid expenses	<u>9,000</u>	
	Total current assets		129,000
Investments			50,000
Property and Equipment			
	Land	80,000	
	Building	420,000	
	Equipment	100,000	
	Less Accumulated depreciation	<u>(141,000)</u>	
	Net property and equipment		<u>459,000</u>
	Total Assets		<u>\$638,000</u>
		<u>Liabilities and Owners' Equity</u>	
Current Liabilities:			
	Accounts payable	\$ 15,000	
	Income taxes payable	20,000	
	Current maturities of long-term debt	50,000	
	Dividends payable	10,000	
	Accrued expenses	<u>25,000</u>	
	Total current liabilities		120,000
Long-term debt			250,000
Owners' Equity:			
	Capital stock	89,000	
	Paid-in capital in excess of par	68,000	
	Retained earnings	<u>111,000</u>	
	Total Owners' Equity		<u>268,000</u>
	Total Liabilities and Owners' Equity		<u>\$638,000</u>

**Problem 17: Solution**

	Martin's Motel		Dollar	Common-Size
	<u>20X1</u>	<u>20X2</u>	<u>Differences</u>	<u>Dec. 31, 20X2</u>
Current Assets				
Cash				
House Bank	\$ 50	\$ 40	\$ (10)	.4%
Demand Deposit	<u>60</u>	<u>60</u>	<u>0</u>	<u>.6</u>
Total Cash	110	100	(10)	1.0
Accounts Receivable	1,241	1,400	159	14.0
Inventories	<u>68</u>	<u>120</u>	<u>52</u>	<u>1.2</u>
Total Current Assets	1,419	1,620	201	16.2
Investments	175	200	25	2.0
Property and Equipment (net)				
Land	957	1,030	73	10.3
Building	4,350	4,600	250	46.0
Furniture	2,575	2,500	(75)	25.0
Other Assets	<u>49</u>	<u>50</u>	<u>1</u>	<u>.5</u>
Total Assets	<u>\$9,525</u>	<u>\$10,000</u>	<u>\$475</u>	<u>100.0</u>

Key: Notice that the demand deposit of \$60 is .6% of total assets; therefore, total assets equals \$10,000.

**Problem 18: Solution**

	Gordon Lodge			
	Balance Sheet			
	December 31, 20X1 and 20X2			
	<u>December 31</u>	<u>20X2</u>	<u>Dollar</u>	<u>Common-Size</u>
	<u>20X1</u>	<u>20X2</u>	<u>Difference</u>	<u>Dec. 31, 20X2</u>
Current Liabilities:				
Notes Payable	\$ 5,000	\$ <u>500</u>	\$ <u>(4,500)</u>	1.0%
Accounts Payable	<u>7,000</u>	8,000	1,000	<u>1.4</u>
Taxes Payable	<u>3,000</u>	<u>3,500</u>	500	0.6
Wages Payable	<u>5,000</u>	<u>6,000</u>	1,000	<u>1.0</u>
Total	20,000	18,000	<u>(2,000)</u>	<u>4.0</u>
LTD:				
Mortgage Payable	\$ <u>200,000</u>	\$ <u>180,000</u>	\$ (20,000)	40.0%
Deferred Taxes	<u>80,000</u>	80,000	<u>-</u>	<u>16.0</u>
Total	280,000	<u>260,000</u>	<u>(20,000)</u>	<u>56.0</u>
Owners' Equity:				
Common Stock	\$ <u>150,000</u>	\$ <u>160,000</u>	\$ 10,000	30.0%
Retained Earnings	<u>60,000</u>	80,000	20,000	<u>12.0</u>
Treasury Stock	<u>(10,000)</u>	<u>(10,000)</u>	-0-	<u>(2.0)</u>
Total	<u>200,000</u>	<u>230,000</u>	<u>30,000</u>	<u>40.0</u>
Total Liabilities and Owners' Equity	<u>\$500,000</u>	<u>\$508,000</u>	<u>\$ 8,000</u>	<u>100.0%</u>

**Problem 19: Solution**

Longstreth Lodge  
Balance Sheet  
December 31, 20X1 and 20X2

	<u>December 31</u>		<u>Percentage</u>	<u>Common-</u>
	<u>20X1</u>	<u>20X2</u>	<u>Difference</u>	<u>Size</u>
				<u>12/31/X2</u>
<b>Current Assets:</b>				
Cash	\$ 800	\$ 1,000	25.0%	0.2%
Accounts Receivable	30,000	27,500	-8.3%	5.0%
Inventories	500	550	10.0%	0.1%
Prepaid Expenses	5,000	5,500	10.0%	1.0%
Total Current Assets	36,300	34,550	-4.8%	6.3%
<b>Property &amp; Equipment:</b>				
Land	100,000	100,000	0.0%	18.2%
Building	400,000	400,000	0.0%	72.7%
Equipment	55,000	55,000	0.0%	10.0%
Accumulated Depr.	(35,000)	(44,000)	25.7%	-8.0%
Net Property & Eq.	520,000	511,000	-1.7%	92.9%
Other Assets	<u>5,700</u>	<u>4,450</u>	<u>-21.9%</u>	<u>0.8%</u>
Total Assets	<u>\$562,000</u>	<u>\$550,000</u>	<u>-2.1%</u>	<u>100.0%</u>

**Problem 20: Solution**

Base-Year Comparisons  
Current Assets  
Wyoming Inn

	<u>20X1</u>	<u>20X2</u>	<u>20X3</u>
Cash	100.00%	110.00%	120.00%
Marketable Securities	100.00%	75.00%	62.50%
Accounts Receivable	100.00%	105.71%	111.43%
Allowance for Doubtful Accounts	100.00%	83.33%	133.33%
Food Inventory	100.00%	108.33%	116.67%
Prepaid Insurance	<u>100.00%</u>	<u>125.00%</u>	<u>150.00%</u>
Total Current Assets	<u>100.00%</u>	<u>104.31%</u>	<u>106.90%</u>