CHAPTER 3 THE BALANCE SHEET AND FINANCIAL DISCLOSURES

QUESTIONS FOR REVIEW OF KEY TOPICS

Question 3–1

The purpose of the balance sheet, also known as the statement of financial position, is to present the financial position of the company on a particular date. Unlike the income statement, which is a change statement that reports events occurring during a period of time, the balance sheet is a statement that presents an organized list of assets, liabilities, and shareholders' equity at a point in time. It is a freeze-frame or snapshot picture of financial position at the end of a particular day marking the end of an accounting period.

Question 3–2

The balance sheet does not portray the market value of the entity (number of common stock shares outstanding multiplied by price per share) for a number of reasons. Most assets are not reported at fair value, but instead are measured according to historical cost. Also, there are certain resources, such as trained employees, an experienced management team, and a good reputation, that are not recorded as assets at all. Therefore, the assets of a company minus its liabilities, as shown in the balance sheet, will not be representative of the company's market value.

Question 3–3

Current assets include cash and other assets that are reasonably expected to be converted to cash or consumed within one year from the balance sheet date, or within the normal operating cycle of the business if the operating cycle is longer than one year. The typical asset categories classified as current assets include:

— Cash and cash equivalents
— Short-term investments
— Accounts receivable
— Inventory
— Prepaid expenses

Question 3–4

Current liabilities are those obligations that are expected to be satisfied through the use of current assets or the creation of other current liabilities. So, this classification will include all liabilities that are scheduled to be liquidated within one year of the balance sheet date (or operating cycle, if longer), except those that management intends to refinance on a long-term basis. The typical liability categories classified as current liabilities include:

— Accounts payable
— Deferred revenue
— Short-term notes payable
— Accrued liabilities
— Current maturities of long-term debt or long-term leases

Answers to Questions (continued)

Question 3–5

The operating cycle for a typical manufacturing company refers to the period of time required to convert cash to raw materials, raw materials to a finished product, finished product to receivables, and then finally receivables back to cash.

Question 3–6

Investments in equity securities are classified as current if the company's management (1) intends to liquidate the investment within one year from the balance sheet date (or operating cycle, if longer), and (2) has the ability to do so, that is, the investment is marketable. If either of these criteria does not hold, the investment is classified as long-term.

Question 3–7

The common characteristics that these assets have in common are that they are *tangible, long-lived* assets *used in the operations of the business*. They usually are the primary revenue-generating assets of the business. These assets include land, buildings, equipment, machinery, furniture, and other assets *used* in the operations of the business, as well as natural resources, such as mineral mines, timber tracts, and oil wells.

Question 3–8

Property, plant, and equipment and intangible assets each represent assets that are long-lived and are used in the operations of the business. The difference is that property, plant, and equipment represent physical assets, while intangible assets lack physical substance. Generally, intangible assets represent the ownership of an exclusive right, such as a patent, copyright, or franchise.

Question 3–9

A note payable of $100,000 due in five years would be classified as a long-term liability. A $100,000 note due in five annual installments of $20,000 each would be classified as a $20,000 current liability—current maturities of long-term debt—and an $80,000 long-term liability.

Question 3–10

Paid-in capital consists of amounts invested by shareholders in the corporation. Retained earnings equals net income less dividends distributed to shareholders from the inception of the corporation.

Answers to Questions (continued)

Question 3–11

Disclosure notes provide additional detail concerning specific financial statement items. Included are such data as the fair values of financial instruments and off-balance-sheet risk associated with financial instruments and details of pension plans, leases, debt, and assets. Common to all companies' disclosures are certain specific notes such as a summary of significant accounting policies, descriptions of subsequent events, and related third-party transactions. However, many notes are designed to fit the disclosure needs of the particular reporting company. In fact, any explanation that helps investors and creditors make decisions should be included.

Question 3–12

The disclosure of the company's significant accounting policies is extremely important to external users in terms of their ability to *compare* financial information across companies. It is critical to a financial analyst involved in assessing future cash flows of two retail companies to know that one company uses FIFO and the other uses LIFO in recognizing inventory and cost of goods sold.

Question 3–13

A subsequent event is an event that occurs *after* the date of the financial statements but *prior* to the date on which the statements are actually issued or "available to be issued." It may help to clarify a previously existing situation or it may represent a new event not directly affecting financial position at the end of the reporting period.

Question 3–14

The discussion provides management's views on significant events, trends, and uncertainties pertaining to the company's (a) operations, (b) liquidity, and (c) capital resources. Certainly, the Management Discussion and Analysis section may be slanted toward management's biased perspective and therefore can lack objectivity. However, management can offer an informed insight that might not be available elsewhere, so if the reader maintains awareness of the information's source, it can offer a unique view of the situation.

Answers to Questions (continued)

Question 3–15

A proxy statement must be reported each year to all shareholders. It is usually reported at the same time as the annual report. The statement invites shareholders to the shareholders' meeting to elect board members and to vote on issues before the shareholders. It also permits shareholders to vote using an enclosed proxy card. The proxy statement also provides for more disclosures on compensation to directors and executives, and in particular, stock options granted to executives.

Question 3–16

The three primary types of sustainability disclosures include environmental, social, and governance. *Shareholders* use these disclosures to undersand the company's ability to sustain its current operations, which helps in understanding financial performance, resource efficiency, and operating risks. *Stakeholders* (creditors, employees, suppliers, governments, and the community from which the business draws its resources) use these disclosures to better understand their unique relationship with the company and the impact of the company on society in general.

Question 3–17

Depending on the circumstances, the auditor of a public company will issue a (an):

1. **Unqualified opinion**—The auditors are satisfied that the financial statements "present fairly" the financial position, results of operations, and cash flows and are "prepared in conformity with generally accepted accounting principles."
2. **Qualified opinion**—This contains an exception to the standard unqualified opinion, but not of sufficient seriousness to invalidate the financial statements as a whole. Examples of exceptions are (a) unconformity with generally accepted accounting principles, (b) inadequate disclosures, and (c) a limitation or restriction of the scope of the examination.
3. **Adverse opinion**—This is necessary when the exceptions (a) and (b) above are so serious that a qualified opinion is not justified. Adverse opinions are rare because auditors usually are able to persuade management to rectify problems to avoid this undesirable report.
4. **Disclaimer**—An auditor will disclaim an opinion if item (c) above applies and, therefore, insufficient information has been gathered to express an opinion.

Question 3–18

Working capital is the difference between current assets and current liabilities. The current ratio is computed by dividing current assets by current liabilities. The acid-test ratio (or quick ratio) is computed by dividing quick assets (cash and cash equivalents, short-term investments, and accounts receivable) by current liabilities.

Answers to Questions (continued)

Question 3–19

$$\text{Debt to equity ratio} = \frac{\text{Total liabilities}}{\text{Shareholders' equity}}$$

$$\text{Times interest earned ratio} = \frac{\text{Net income + Interest + Taxes}}{\text{Interest}}$$

Question 3–20

IAS No.1, revised, "Presentation of Financial Statements," provides authoritative guidance for balance sheet presentation under IFRS.

Question 3–21

Differences in balance sheet presentation between U.S. GAAP and IFRS include:

1. International standards specify a minimum list of items to be presented in the balance sheet. U.S. GAAP has no minimum requirements.
2. *IAS No. 1, revised,* changed the title of the balance sheet to statement of financial position, although companies are not required to use that title. Some U.S. companies use the statement of financial position title as well.
3. Under U.S. GAAP, we present current assets and liabilities before long-term assets and liabilities. *IAS No. 1* doesn't prescribe the format of the balance sheet, but balance sheets prepared using IFRS often report long-term items first.

Question 3–22

An **operating segment** is a component of a public entity:

1. That engages in business activities from which it may recognize revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same public entity).
2. Whose operating results are regularly reviewed by the public entity's chief operating decision-maker to make decisions about resources to be allocated to the segment, and to assess its performance.
3. For which discrete financial information is available.

Only segments of material size (10% or more of total company revenues, assets, or net income) must be disclosed. However, a company must account for at least 75% of consolidated revenue through segment disclosures.

BRIEF EXERCISES

Answers to Questions (concluded)

Question 3–23

For areas determined to be reportable operating segments, the following disclosures are required:

1. General information about the operating segment.
2. Information about reported segment profit or loss, including certain revenues and expenses included in reported segment profit or loss, segment assets, and the basis of measurement.
3. Reconciliations of the totals of segment revenues, reported profit or loss, assets, and other significant items to corresponding enterprise amounts.
4. Interim period information.

Question 3–24

U.S. GAAP requires public companies to report information about reported segment profit or loss, including certain revenues and expenses included in reported segment profit or loss, segment assets, and the basis of measurement. The international standard on segment reporting, *IFRS No. 8,* requires that companies also disclose the total *liabilities* of its reportable segments.

Brief Exercise 3–1

(a) Current
(b) Current
(c) Long-term
(d) Current
(e) Long-term
(f) Long-term

Brief Exercise 3–2

Current assets:
$16,000 + $11,000 + $25,000 = **$52,000**

Current liabilities:
$14,000 + $9,000 + $1,000 = **$24,000**

Brief Exercise 3–3

Assets: $ 52,000 current assets

	80,000	equipment (net)
	$132,000	total assets
minus		
Liabilities	$ 24,000	current liabilities
	30,000	notes payable
	$ 54,000	total liabilities
equals		
Shareholders' equity	$78,000	(total assets $132,000 – total liab. $54,000)
	(50,000)	common stock
	$28,000	retained earnings

Brief Exercise 3–4

K AND J NURSERY, INC.
Balance Sheet
At December 31, 2024

Assets		
Current assets:		
Cash		$ 16,000
Accounts receivable		11,000
Inventory		25,000
Total current assets		52,000
Long-term assets:		
Equipment	$140,000	
Less: Accumulated depreciation	(60,000)	
Net property, plant, and equipment		80,000
Total assets		$132,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable		$ 14,000
Salaries payable		9,000
Interest payable		1,000
Total current liabilities		24,000
Long-term liabilities:		
Notes payable		30,000
Total liabilities		54,000
Shareholders' equity:		
Common stock	$50,000	
Retained earnings*	28,000	
Total shareholders' equity		78,000
Total liabilities and shareholders' equity		$132,000

*$28,000 is the amount needed to cause total assets to equal total liabilities and shareholders' equity. This is calculated in BE 3–3.

Brief Exercise 3–5

CULVER CITY LIGHTING, INC.
Balance Sheet
At December 31, 2024

Assets		
Current assets:		
Cash		$ 55,000
Accounts receivable		39,000
Inventory		45,000
Prepaid insurance		15,000
Total current assets		154,000
Property, plant, and equipment:		
Equipment	$100,000	
Less: Accumulated depreciation	(34,000)	
Net property, plant, and equipment		66,000
Intangible assets:		
Patent (net)		40,000
Total assets		$260,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable		$ 12,000
Interest payable		2,000
Total current liabilities		14,000
Long-term liabilities:		
Notes payable		100,000
Total liabilities		114,000
Shareholders' equity:		
Common stock	$70,000	
Retained earnings	76,000	
Total shareholders' equity		146,000
Total liabilities and shareholders' equity		$260,000

Brief Exercise 3–6

1. The $30,000 should be classified as a long-term asset, under the investments classification.

2. The next year's installment, $10,000, should be classified as a current liability, current maturities of long-term debt. The remaining $90,000 is classified in long-term liabilities.
3. Two-thirds of the deferred revenue, $40,000, should be classified as a current liability. The remaining $20,000 is classified as a long-term liability.

Brief Exercise 3–7

Current assets	–	Cash and cash equivalents	–	Accounts receivable	=	Inventory
$235,000	–	$40,000	–	$120,000	=	**$75,000**

Total assets	–	Current assets	=	Property, plant, and equipment (net)
$400,000	–	$235,000	=	**$165,000**

Total assets	–	Accounts payable	–	Notes payable	–	Common stock	=	Retained earnings
$400,000	–	$32,000	–	$50,000	–	$100,000	=	**$218,000**

Brief Exercise 3–8

(1) A
(2) B
(3) B
(4) A
(5) B
(6) A

Brief Exercise 3–9

(1) B
(2) C
(3) A
(4) C
(5) B

Brief Exercise 3–10

(a) Current assets ÷ Current liabilities
($55,000 + $39,000 + $45,000 + $15,000) ÷ ($12,000 + $2,000)
$154,000 ÷ $14,000 = **11.00**

(b) (Cash + Short-term investments + Accounts receivable) ÷ Current liabilities
($55,000 + $0 + $39,000) ÷ $14,000 = **6.71**

(c) Total liabilities ÷ Shareholders' equity
$14,000 Current liabilities + $100,000 Long-term liabilities = $114,000
$70,000 Common stock + $76,000 Retained earnings = $146,000
$114,000 ÷ $146,000 = **0.78**

Brief Exercise 3–11

Paying accounts payable reduces both current assets and current liabilities. If the current ratio before the payment was above 1.0, the transaction would cause the current ratio to **increase**. However, if the current ratio before the transaction was less than 1.0, the current ratio would **decrease**.

Brief Exercise 3–12

Acid-test ratio = (Cash + Short-term investments + A/R) ÷ Current liabilities
1.5 = ($20,000 + $0 + $40,000) ÷ Current liabilities
1.5 × Current liabilities = $60,000
Current liabilities = $60,000 ÷ 1.5
Current liabilities = **$40,000**

Current ratio = Current assets ÷ Current liabilities
2.0 = Current assets ÷ $40,000
Current assets = $40,000 × 2.0
Current assets = $80,000
$80,000 – $20,000(cash) – $40,000(A/R) = **$20,000** inventory

EXERCISES

Exercise 3–1

1. Total current assets

Current liabilities = \$44,000 + \$15,000 + \$1,000 (interest payable)
= \$60,000

Since the current ratio is 1.5:1, Current assets = 1.5 × \$60,000 = **\$90,000**

2. Short-term investments

\$90,000 – \$5,000 – \$20,000 – \$60,000 = **\$5,000**

3. Retained earnings

Current assets + Long-term assets = Current liabilities + Long-term liabilities + Paid-in capital + Retained earnings (RE)

\$90,000 + \$120,000 = \$60,000 + \$30,000 (notes payable) + \$100,000 + RE

RE = **\$20,000**

Exercise 3–2

1. c Equipment
2. e Accounts payable
3. -a Allowance for uncollectible accounts
4. b Land (held for investment)
5. f Notes payable (due in 5 years)
6. e Deferred revenue (for the next 12 months)
7. e Notes payable (due in 6 months)
8. h Accumulated amount of net income less dividends
9. b Investment in XYZ Corp. (long-term)
10. a Inventory
11. d Patent
12. c Land (used in operations)
13. e Accrued liabilities (due in 6 months)
14. a Prepaid rent (for the next 9 months)
15. g Common stock
16. c Building (used in operations)
17. a Cash
18. e Income taxes payable

Exercise 3–3

1.	e	Interest payable (due in 3 months)	10.	a	Supplies
2.	d	Franchise	11.	c	Machinery
3.	-c	Accumulated depreciation	12.	c	Land (used in operations)
4.	a	Prepaid insurance (for next 6 months)	13.	e	Deferred revenue (for next 4 months)
5.	f	Bonds payable (due in 10 years)	14.	d	Copyrights
6.	e	Current maturities of long-term debt	15.	g	Common stock
7.	e	Notes payable (due in 3 months)	16.	b	Land (held for speculation)
8.	b	Long-term receivables	17.	a	Cash equivalents
9.	a	Unrestricted cash	18.	e	Salaries payable

Exercise 3–4

JACKSON CORPORATION
Balance Sheet
At December 31, 2024

Assets

Current assets:		
Cash		$ 40,000
Investment in equity securities		10,000
Accounts receivable		34,000
Inventory		75,000
Prepaid rent		16,000
Total current assets		175,000
Property, plant, and equipment:		
Machinery	$145,000	
Less: Accumulated depreciation	(11,000)	
Net property, plant, and equipment		134,000
Intangible assets:		
Patent (net)		83,000
Total assets		$392,000

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable		$ 8,000
Salaries payable		4,000
Income taxes payable		32,000
Total current liabilities		44,000
Long-term liabilities:		
Bonds payable		200,000
Total liabilities		244,000
Shareholders' equity:		
Common stock	$100,000	
Retained earnings	48,000	
Total shareholders' equity		148,000
Total liabilities and shareholders' equity		$392,000

Exercise 3–5

VALLEY PUMP CORPORATION
Balance Sheet
At December 31, 2024
Assets

Current assets:		
Cash		$ 25,000
Investment in equity securities		22,000
Accounts receivable	$56,000	
Less: Allowance for uncollectible accounts	(5,000)	
Net accounts receivable		51,000
Inventory		81,000
Prepaid expenses		32,000
Total current assets		211,000
Investments:		
Investment in equity securities	22,000	
Land	20,000	
Total investments		42,000
Property, plant, and equipment:		
Land	100,000	
Buildings	300,000	
Equipment	75,000	
	475,000	
Less: Accumulated depreciation—buildings	(100,000)	
Less: Accumulated depreciation—equipment	(25,000)	
Net property, plant, and equipment		350,000
Intangible assets:		
Copyright (net)		12,000
Total assets		$615,000

Exercise 3–5 (continued)

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable		$ 65,000
Interest payable		10,000
Deferred revenue		20,000
Notes payable (current)		100,000
Notes payable (current maturities of long-term debt)		50,000
Total current liabilities		245,000
Long-term liabilities:		
Notes payable (long-term).................................		100,000
Total liabilities		345,000
Shareholders' equity:		
Common stock	$200,000	
Retained earnings	70,000	
Total shareholders' equity		270,000
Total liabilities and shareholders' equity ...		$615,000

Exercise 3–6

Current assets:		
Cash	$ 20,000	
Accounts receivable	130,000	
Less: Allowance for uncollectible accounts	(13,000)	
Notes receivable	100,000	
Interest receivable	3,000	
Investment in debt securities	32,000	
Raw materials	24,000	
Work in process	42,000	
Finished goods	89,000	
Prepaid rent (one-half of $60,000)	30,000	
Total current assets		$457,000
Current liabilities:		
Deferred revenue (one half of $36,000)	18,000	
Accounts payable	180,000	
Interest payable	5,000	
Total current liabilities		(203,000)
Working capital		**$254,000**

Exercise 3–7

LOS GATOS CORPORATION
Balance Sheet
At December 31, 2024

Assets		
Current assets:		
Cash		$ 20,000
Accounts receivable	$ 60,000	
Less: Allowance for uncollectible accounts	(5,000)	
Net accounts receivable		55,000
Inventory		55,000
Total current assets		130,000
Investments:		
Notes receivable		20,000
Property, plant, and equipment:		
Machinery	190,000	
Less: Accumulated depreciation	(70,000)	
Net property, plant, and equipment		120,000
Intangible assets:		
Franchise (net)		30,000
Other assets:		
Restricted cash		20,000
Total assets		$320,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable		$ 50,000
Interest payable		5,000
Notes payable		50,000
Total current liabilities		105,000
Long-term liabilities:		
Bonds payable		110,000
Total liabilities		215,000
Shareholders' equity:		
Common stock (no par value; 100,000 shares authorized; 50,000 shares issued and outstanding)	$ 70,000	
Retained earnings	35,000	
Total shareholders' equity		105,000
Total liabilities and shareholders' equity		$320,000

Exercise 3–8

CONE CORPORATION
Balance Sheet (Partial)
At December 31, 2024

Assets

Current assets:	
Investment in equity securities	$ 40,000
Prepaid rent	12,000
Long-term investments:	
Investment in equity securities	40,000
Other assets:	
Prepaid rent **(1)**	12,000
Restricted cash	50,000

Liabilities and Shareholders' Equity

Current liabilities:	
Interest payable	$ 12,000
Notes payable (current maturities of long-term debt)	20,000
Long-term liabilities:	
Notes payable (long-term).................................	180,000

(1) Note: In practice, companies often report all prepaid expenses as current assets.

Exercise 3–9

See calculations below the balance sheet.

KORVER SUPPLY COMPANY
Balance Sheet
At December 31, 2024

Assets

Current assets:		
Cash		$168,000
Accounts receivable		320,000
Inventory		250,000
Total current assets		738,000
Property, plant, and equipment:		
Furniture and fixtures	$300,000	
Less: Accumulated depreciation	(170,000)	
Net property, plant, and equipment		130,000
Total assets		$868,000

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable		$180,000
Interest payable		6,000
Notes payable		200,000
Total current liabilities		386,000
Shareholders' equity:		
Common stock	$100,000	
Retained earnings	382,000	
Total shareholders' equity		482,000
Total liabilities and shareholders' equity		$868,000

Exercise 3–9 (concluded)

Beginning balance in cash	$120,000
+ Cash collected from customers	780,000
– Cash paid to suppliers	(560,000)
– Cash paid for operating expenses	(160,000)
– Cash paid for interest	(12,000)
Ending cash balance	**$168,000**

Beginning balance in accounts receivable	$300,000
+ Credit sales	800,000
– Cash collected from customers	(780,000)
Ending balance in accounts receivable	**$320,000**

Beginning balance in inventory	$200,000
+ Purchases	550,000
– Cost of merchandise sold	(500,000)
Ending balance in inventory	**$250,000**

Beginning balance in furniture and fixtures, net	$150,000
– Depreciation for the year	(20,000)
Ending balance in furniture and fixtures, net	**$130,000**

Beginning balance in accounts payable	$190,000
+ Purchases on account	550,000
– Cash paid to suppliers	(560,000)
Ending balance in accounts payable	**$180,000**

Beginning balance in retained earnings	$274,000
+ Sales revenue	800,000
– Cost of goods sold	(500,000)
– Operating expenses	(160,000)
– Depreciation expense	(20,000)
– Interest expense	(12,000)
Ending balance in retained earnings	**$382,000**

Accrued interest on notes ($200,000 x 6% x $^{6}/_{12}$)	**$6,000**

Exercise 3–10

1. Inventory costing method	A
2. Information on related-party transactions	B
3. Composition of property, plant, and equipment	B
4. Depreciation method	A
5. Subsequent event information	B
6. Measurement basis for certain financial instruments	A
7. Important merger occurring after year-end	B
8. Composition of receivables	B

Exercise 3–11

1. When related-party transactions occur, companies must disclose the nature of the relationship, provide a description of the transaction, and report the dollar amounts of the transactions and any amounts due from or to related parties.
2. When an event that has a material effect on the company's financial position occurs after the fiscal year-end, but before the financial statements actually are issued, the event is disclosed in a *subsequent event* disclosure note.
3. The choice of the straight-line method to determine depreciation typically is disclosed in the company's summary of significant accounting policies disclosure note.
4. This information would be included in a disclosure note describing the company's debt.
5. The choice of the FIFO method to determine value inventory typically is disclosed in the company's summary of significant accounting policies disclosure note.

Exercise 3–12

1. (B) in a separate disclosure note.
2. (A) in the summary of significant policies note.
3. (C) on the face of the balance sheet.
4. (B) in a separate disclosure note.
5. (B) in a separate disclosure note.
6. (A) in the summary of significant policies note.
7. (C) on the face of the balance sheet.
8. (B) in a separate disclosure note.

Exercise 3–13

1. Topic number that provides guidance on information contained in the notes to the financial statements:

   ASC Topic 235: "Notes to the Financial Statements."

2. The topic, subtopic, and section number that describes the information that companies must disclose in the accounting policies note:

   ASC 235–10–50: "Notes to Financial Statements–Overall–Disclosure–What to Disclose."

3. Disclosure of accounting policies should identify and describe the accounting principles the company follows and the methods of applying those principles that materially affect the determination of financial position, cash flows, or results of operations. In general, the disclosure encompasses important judgments as to appropriateness of principles relating to recognition of revenue and allocation of asset costs to current and future periods. In particular, it encompasses those accounting principles and methods that involve any of the following:

   a. A selection from existing acceptable alternatives.
   b. Principles and methods peculiar to the industry in which the entity operates, even if such principles and methods are predominantly followed in that industry.
   c. Unusual or innovative applications of GAAP.

Exercise 3–14

1. The topic, subtopic, and section number that determines the balance sheet classification for a note payable due in six months that was used to purchase a building:

   FASB ASC 210–10–45–9: "Notes to Financial Statements–Overall–Other Presentation Matters–Other Liabilities."

   Other liabilities whose regular and ordinary liquidation is expected to occur within a relatively short period of time, usually 12 months, are also generally included, such as the following:
   a. Short-term debts arising from the acquisition of capital assets.

   b. Serial maturities of long-term obligations.

   c. Amounts required to be expended within one year under sinking fund provisions.

   d. Agency obligations arising from the collection or acceptance of cash or other assets for the account of third persons. Loans accompanied by pledge of life insurance policies would be classified as current liabilities if, by their terms or by intent, they are to be repaid within 12 months. The pledging of life insurance policies does not affect the classification of the asset any more than does the pledging of receivables, inventories, real estate, or other assets as collateral for a short-term loan. However, when a loan on a life insurance policy is obtained from the insurance entity with the intent that it will not be paid but will be liquidated by deduction from the proceeds of the policy upon maturity or cancellation, the obligation shall be excluded from current liabilities.

2. The topic, subtopic, and section number that determines which assets may be excluded from current assets:

   FASB ASC 210–10–45–4: “Notes to Financial Statements–Overall–Other Presentation Matters.”

   The concept of the nature of current assets contemplates the exclusion from that classification of such resources as the following:
   a. Cash and claims to cash that are restricted as to withdrawal or use for other than current operations, are designated for expenditure in the acquisition or construction of long-term assets, or are segregated for the liquidation of long-term debts. Even though not actually set aside in special accounts, funds that are clearly to be used in the near future for the liquidation of long-term debts, payments to sinking funds, or for similar purposes shall also, under this concept, be excluded from current assets. However, if such funds are considered to offset maturing debt that has properly been set up as a current liability, they may be included within the current asset classification.

   b. Investments in securities (whether marketable or not) or advances that have been made for the purposes of control, affiliation, or other continuing business advantage.

   c. Receivables arising from unusual transactions (such as the sale of capital assets, or loans or advances to affiliates, officers, or employees) that are not expected to be collected within 12 months.

   d. Cash surrender value of life insurance policies.

   e. Land and other natural resources.

   f. Depreciable assets.

   g. Long-term prepayments that are fairly chargeable to the operations of several years, or deferred charges such as bonus payments under a long-term lease, costs of rearrangement of factory layout or removal to a new location.

Exercise 3–14 (continued)

3. The topic, subtopic, and section number that determines whether a note receivable from a related party would be included in the balance sheet with notes receivable from customers:

   FASB ASC 850–10–50–2: "Related Party Disclosures–Overall–Disclosure."

   Notes or accounts receivable from officers, employees, or affiliated entities must be shown separately and not included under a general heading such as notes receivable or accounts receivable.

Exercise 3–14 (concluded)

4. The topic, subtopic, and section number determines what items are nonrecognized subsequent events that require a disclosure in the notes to the financial statements:

   FASB ASC 855–10–55–2: "Subsequent Events–Overall–Implementation Guidance and Illustrations–Nonrecognized Subsequent Events."

   The following are examples of nonrecognized subsequent events addressed in paragraph 855–10–55–2:
   a. Sale of a bond or capital stock issued after the balance sheet date but before financial statements are issued or are available to be issued.

   b. A business combination that occurs after the balance sheet date but before financial statements are issued or are available to be.

   c. Settlement of litigation when the event giving rise to the claim took place after the balance sheet date but before financial statements are issued or are available to be issued.

   d. Loss of plant or inventories as a result of fire or natural disaster that occurred after the balance sheet date but before financial statements are issued or are available to be issued.

   e. Losses on receivables resulting from conditions (such as a customer's major casualty) arising after the balance sheet date but before financial statements are issued or are available to be issued.

   f. Changes in the fair value of assets or liabilities (financial or nonfinancial) or foreign exchange rates after the balance sheet date but before financial statements are issued or are available to be issued.

   g. Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the balance sheet date but before financial statements are issued or are available to be issued.

Exercise 3–15

	List A	List B
d	1. Balance sheet	a. Will be satisfied through the use of current assets.
h	2. Liquidity	b. Items expected to be converted to cash or consumed within one year or the operating cycle, whichever is longer.
b	3. Current assets	c. The statements are presented fairly in conformity with GAAP.
j	4. Operating cycle	d. An organized array of assets, liabilities, and equity.
a	5. Current liabilities	e. Important to a user in comparing financial information across companies.
k	6. Cash equivalent	f. Scope limitation or a departure from GAAP.
m	7. Intangible asset	g. Recorded when an expense is incurred but not yet paid.
l	8. Working capital	h. Refers to the ability of a company to convert its assets to cash to pay its current obligations.
g	9. Accrued liabilities	i. Occurs after the fiscal year-end but before the statements are issued.
e	10. Summary of significant accounting policies	j. Period of time from payment of cash to collection of cash.
i	11. Subsequent events	k. One-month U.S. treasury bill.
n	12. Sustainability disclosures	l. Current assets minus current liabilities.
c	13. Unqualified opinion	m. Lacks physical substance
f	14. Qualified opinion	n. Information about environmental, social and governance factors related to company operations.

Exercise 3–16

1. Current ratio	[$200 + $150 + $200 + $350] ÷ $400 = 2.25
2. Acid-test ratio	[$200 + $150 + $200] ÷ $400 = 1.375
3. Debt to equity ratio	[$400 + $350] ÷ [$750 + $400] = 0.65
4. Times interest earned ratio	[$160 + $40 + $100] ÷ $40 = 7.5 times

Exercise 3–17

Requirement 1

a. Current ratio	\$8,857 ÷ \$8,060 = 1.10
b. Acid-test ratio	[\$2,229 + \$0 + \$1,149] ÷ \$8,060 = 0.42
c. Debt to equity ratio	[\$8,060 + \$4,052] ÷ \$3,479= 3.48
d. Times interest earned ratio	[\$1,541 + \$64 + \$452] ÷ \$64 = 32.14 times

Requirement 2

Best Buy’s current ratio is well below the industry average (but above 1) and its debt to equity ratio is well above the industry average. Both of these ratios relative to the industry are indications of the company’s higher risk. However, the company’s acid-test ratio is slightly above the industry average and its times interest eaerned ratio is well above the industry average. Overall, Best Buy seems capable of meeting the debt obligations.

Exercise 3–18

a. Acid-test ratio = Quick assets ÷ Current liabilities = 1.20
Quick assets = Current assets – Inventory
Quick assets = Current assets – $840,000

Current assets ÷ Current liabilities = 2.25
Current assets – $840,000 ÷ Current liabilities = 1.20
$840,000 ÷ Current liabilities = 1.05
Current liabilities = $800,000
Current assets ÷ $800,000 = 2.25
Current assets = **$1,800,000**

b. Debt to equity ratio = Total liabilities ÷ Shareholders’ equity = 1.8
Total liabilities + Shareholders' equity = Total assets
Total liabilities + Shareholders' equity = $2,800,000
Let x equal shareholders' equity
1.8 x + x = $2,800,000
x = **$1,000,000** = Shareholders' equity

c. Long-term assets = Total assets – Current assets
Long-term assets = $2,800,000 – $1,800,000 = **$1,000,000**

d. Long-term liabilities = Total assets – Current liabilities – Shareholders' equity Long-term liabilities = $2,800,000 – $800,000 – $1,000,000 = **$1,000,000**

Exercise 3–19

1. Debt to equity ratio = Total liabilities ÷ Shareholders' equity = 1.4
   Total liabilities ÷ \$2,500,000 = 1.4
   Shareholders' equity × 1.4 = Total liabilities
   \$2,500,000 × 1.4 = \$3,500,000 = Total liabilities

   Total liabilities + Equity = Total assets
   \$3,500,000 + \$2,500,000 = \$6,000,000 = Total assets

   Total assets – Long-term assets = Current assets
   \$6,000,000 – \$2,400,000 = \$3,600,000 = Current assets

   Current ratio = Current assets ÷ Current liabilities
   2.0 = \$3,600,000 ÷ Current liabilities
   Current liabilities = \$3,600,000 ÷ 2 = **\$1,800,000**

2. Total assets = Total liabilities + Shareholders' equity
   Total assets = Current liabilities + Long-term liabilities + Shareholders' equity
   \$6,000,000 = \$1,800,000 + Long-term liabilities + \$2,500,000
   Long-term liabilities = **\$1,700,000**

3. Current assets = Cash + Accounts receivable + Prepaid expenses
   \$3,600,000 = \$1,300,000 + Accounts receivable + \$360,000
   Accounts receivable = **\$1,940,000**

4. Acid-test ratio = Quick assets ÷ Current liabilities
   Quick assets = Cash + Accounts receivable
   Quick assets = \$1,300,000 + \$1,940,000 = \$3,240,000
   Acid-test ratio = \$3,240,000 ÷ \$1,800,000 = **1.8**

Exercise 3–20

Action	Current Ratio	Acid-test Ratio	Debt to Equity Ratio
1. Issuance of long-term bonds	I	I	I
2. Issuance of short-term notes	I	I	I
3. Payment of accounts payable	D	D	D
4. Purchase of inventory on account	I	D	I
5. Purchase of inventory for cash	N	D	N
6. Purchase of equipment with a 4-year note	N	N	I
7. Repayment of long-term notes payable	D	D	D
8. Issuance of common stock	I	I	D
9. Payment for advertising expense	D	D	I
10. Purchase of short-term investment for cash	N	N	N
11. Reclassification of long-term notes-payable to current notes payable	D	D	N

Exercise 3–21

Requirement 1

The pharmaceuticals, plastics, and farm equipment segments are reportable. Only segments representing 10% or more of total company revenues, assets, or net income must be reported. The electronics segment does not meet this criterion.

Requirement 2

For segments determined to be reportable, the following disclosures are required:

a. General information about the operating segment.
b. Information about reported segment profit or loss, including certain revenues and expenses included in reported segment profit or loss, segment assets, and the basis of measurement.
c. Reconciliations of the totals of segment revenues, reported profit or loss, assets, and other significant items to corresponding enterprise amounts.
d. Interim period information.

Exercise 3–22

In addition to revenues, profit or loss, and assets, IFRS also require the disclosure of total liabilities for each of the reportable segments.

Problems

Problem 3–1

Name of Company
Balance Sheet
At [date]

Assets

Current assets:
Cash
Short-term investments
Accounts receivable
Less: Allowance for uncollectible accounts
Interest receivable
Inventory
Prepaid expenses
Total current assets

Investments:
Land (held for speculation)
Long-term equity investments
Notes receivable
Total investments

Property, plant, and equipment:
Land (in use)
Buildings
Equipment
Less: Accumulated depreciation—buildings
Less: Accumulated depreciation—equipment
Net property, plant, and equipment

Intangible assets:
Patent (net)
Copyright (net)
Total intangible assets
Total assets

Liabilities and Shareholders' Equity

Current liabilities:
Accounts payable
Interest payable
Income taxes payable
Salaries payable
Notes payable
Total current liabilities

Long-term liabilities:

Bonds payable
Total liabilities

Shareholders' equity:
Common stock
Additional paid-in capital
Retained earnings
Total shareholders' equity
Total liabilities and shareholders' equity

Problem 3–2

Requirement 1

Inventory:

Current assets – Cash and cash equivalents – Short-term investments – Accounts receivable – Prepaid expenses = Inventory

$1,594,927 – $239,186 – $353,700 – $504,944 – $83,259 = **$413,838**

Total assets:

Total liabilities + (Common stock + Retained earnings) = Total assets

$956,140 + $370,627 + $1,000,000 = **$2,326,767**

Equipment (net):

Total assets – Current assets – Long-term receivables = Property and equipment

$2,326,767 – $1,594,927 – $110,800 = **$621,040**

Accounts payable:

Total current liabilities – Notes payable (current) – Accrued liabilities – Other current liabilities = Accounts payable

$693,564 – $31,116 – $421,772 – $181,604 = **$59,072**

Long-term debt:

Total liabilities – Current liabilities = Long-term debt

$956,140 – $693,564 = **$262,576**

Problem 3–2 (concluded)

Requirement 2

TRIDENT CORPORATION
Balance Sheet
At December 31, 2024
Assets

	($ in thousands)
Current assets:	
Cash and cash equivalents	$ 239,186
Short-term investments	353,700
Accounts receivable	504,944
Inventory	413,838
Prepaid expenses	83,259
Total current assets	1,594,927
Investments:	
Long-term receivables	110,800
Property, plant, and equipment:	
Equipment (net)	621,040
Total assets	$2,326,767

Liabilities and Shareholders' Equity

Current liabilities:	
Notes payable	$ 31,116
Accounts payable	59,072
Accrued liabilities	421,772
Other current liabilities	181,604
Total current liabilities	693,564
Long-term liabilities:	
Long-term debt	262,576
Total liabilities	956,140
Shareholders' equity	
Common stock	370,627
Retained earnings	1,000,000
Total shareholders' equity	1,370,627
Total liabilities and shareholders' equity	$2,326,767

Problem 3–3

ALMWAY CORPORATION
Balance Sheet
At December 31, 2024

Assets

Current assets:		
Cash and cash equivalents		$ 7,000
Restricted cash		23,000
Investment in equity securities		80,000
Accounts receivable	$ 68,000	
Less: Allowance for uncollectible accounts	(8,000)	
Net accounts receivable		60,000
Inventory		200,000
Prepaid insurance		9,000
Total current assets		379,000
Investments:		
Investment in equity securities	30,000	
Land held for sale	25,000	
Total investments		55,000
Property, plant, and equipment:		
Land	65,000	
Buildings	420,000	
Equipment	110,000	
	595,000	
Less: Accumulated depreciation—buildings	(100,000)	
Less: Accumulated depreciation—equipment	(60,000)	
Net property, plant, and equipment		435,000
Intangible assets:		
Patent (net)		10,000
Other assets:		
Restricted cash		15,000
Total assets		$894,000

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable		$ 75,000
Interest payable		20,000
Notes payable (current)		30,000
Notes payable (current maturities of long-term debt)		10,000
Total current liabilities		135,000
Long-term liabilities:		
Notes payable (long-term)	$ 90,000	
Bonds payable	240,000	
Total long-term liabilities		330,000
Total liabilities		465,000
Shareholders' equity:		
Common stock (no par value; 500,000 shares authorized; 100,000 shares issued and outstanding)	300,000	
Retained earnings	129,000	
Total shareholders' equity		429,000
Total liabilities and shareholders' equity		$894,000

Problem 3–4

WEISMULLER PUBLISHING COMPANY
Balance Sheet
At December 31, 2024

Assets		
Current assets:		
Cash and cash equivalents **(1)**		$ 95,000
Investment in equity securities		110,000
Accounts receivable	$ 160,000	
Less: Allowance for uncollectible accounts	(16,000)	
Net accounts receivable		144,000
Inventory		285,000
Prepaid expenses **(2)**		88,000
Total current assets		722,000
Property, plant, and equipment:		
Equipment	320,000	
Less: Accumulated depreciation	(110,000)	
Net property, plant, and equipment		210,000
Other assets:		
Prepaid expenses		60,000
Total assets		$992,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable		$ 60,000
Interest payable		20,000
Deferred revenue		80,000
Income taxes payable		30,000
Notes payable (current)		40,000
Notes payable (current maturities of long-term debt)		20,000
Total current liabilities		250,000
Long-term liabilities:		
Notes payable (long-term)		140,000
Total liabilities		390,000
Shareholders' equity:		
Common stock (no par value; 800,000 shares authorized; 400,000 shares issued and outstanding)	$ 400,000	
Retained earnings	202,000	
Total shareholders' equity		602,000
Total liabilities and shareholders' equity		$992,000

(1) Includes $30,000 in U.S. treasury bills.
(2) Excludes $60,000 in prepaid rent for the second year on the building lease.

Problem 3–5

EXCELL COMPANY
Balance Sheet
At June 30, 2024

Assets		
Current assets:		
Cash and cash equivalents **(1)**		$ 101,000
Short-term investments		47,000
Accounts receivable (net of allowance for uncollectible accounts of $15,000)		210,000
Interest receivable		5,000
Prepaid expenses		32,000
Total current assets		395,000
Investments:		
Notes receivable	$ 65,000	
Land held for sale	25,000	90,000
Property, plant, and equipment:		
Land	50,000	
Buildings	320,000	
Equipment	265,000	
	635,000	
Less: Accumulated depreciation—buildings	(160,000)	
Less: Accumulated depreciation—equipment	(120,000)	
Net property, plant, and equipment		355,000
Total assets		$ 840,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable		$ 173,000
Accrued liabilities		45,000
Notes payable (current)		50,000
Notes payable (current maturities of long-term debt)		10,000
Total current liabilities		278,000
Long-term liabilities:		
Notes payable (long-term)	$ 50,000	
Mortgage payable	240,000	
Total long-term liabilities		290,000
Total liabilities		568,000
Shareholders' equity:		
Common stock (no par value; 500,000 shares authorized; 200,000 shares issued and outstanding)	100,000	
Retained earnings	172,000	
Total shareholders' equity		272,000
Total liabilities and shareholders' equity		$ 840,000

(1) Includes $18,000 in U.S. treasury bills.

Problem 3–6

Requirement 1

VOSBURGH ELECTRONICS CORPORATION
Balance Sheet
At December 31, 2024

Assets

Current assets:		
Cash and cash equivalents **(1)**		$ 117,000
Short-term investments **(2)**		132,000
Accounts receivable	$ 123,000	
Less: Allowance for uncollectible accounts	(8,000)	
Net accounts receivable		115,000
Receivables from employees		40,000
Interest receivable		12,000
Notes receivable		50,000
Inventory		215,000
Prepaid expenses		16,000
Total current assets		697,000
Investments:		
Long-term investments	35,000	
Notes receivable	200,000	
Total investments		235,000
Property, plant, and equipment:		
Land	280,000	
Buildings	1,550,000	
Equipment	637,000	
	2,467,000	
Less: Accumulated depreciation—buildings	(620,000)	
Less: Accumulated depreciation—equipment	(210,000)	
Net property, plant, and equipment		1,637,000
Intangible assets:		
Patent (net)	152,000	
Franchise (net)	40,000	
Total intangible assets		192,000
Total assets		$ 2,761,000

Problem 3–6 (continued)

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable		$ 189,000
Dividends payable		10,000
Interest payable		16,000
Income taxes payable		40,000
Deferred revenue **(3)**		48,000
Total current liabilities		303,000
Long-term liabilities:		
Notes payable	$ 300,000	
Deferred revenue **(3)**	12,000	
Total long-term liabilities		312,000
Total liabilities		615,000
Shareholders' equity:		
Common stock (no par value; 1,000,000 shares authorized; 500,000 shares issued and outstanding)	2,000,000	
Retained earnings	146,000	
Total shareholders' equity		2,146,000
Total liabilities and shareholders' equity		$ 2,761,000

Problem 3–6 (concluded)

(1) $67,000 + $50,000 in treasury bills considered a cash equivalent.
(2) $182,000 – $50,000 in treasury bills considered a cash equivalent.
(3) $60,000 in deferred revenue, 80%, $48,000, current and 20%, $12,000, long-term.

Requirement 2

a. The allowance for uncollectible accounts.
b. Original cost by major category along with the accumulated depreciation and method used to compute depreciation.
c. Number of shares of authorized, issued, and outstanding shares.
d. Information about the types of securities and the accounting method used to value those securities.
e. The policy used to determine highly liquid investments.
f. The cost method used.
g. Payment terms, interest rates, and collateral pledged as security for the debt.

e. Cash equivalents
a. Accounts receivable
f. Inventory
d. Investments
b. Property, plant and equipment
g. Notes payable
c. Common stock

Problem 3–7

HUBBARD CORPORATION Balance Sheet At December 31, 2024		
Assets		
Current assets:		
Cash		$ 60,000
Investment in equity securities		20,000
Accounts receivable (net)		120,000
Inventory		160,000
Total current assets		360,000
Investments:		
Investment in equity securities	$ 40,000	
Land held for sale	50,000	
Total investments		90,000
Property, plant, and equipment:		
Land **(1)**	130,000	
Buildings	750,000	
Machinery	280,000	
	1,160,000	
Less: Accumulated depreciation	(255,000)	
Net property, plant, and equipment		905,000
Intangible assets:		
Patent (net)		100,000
Total assets		$1,455,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable		$ 215,000
Notes payable (current maturities of long-term debt)		25,000
Total current liabilities		240,000
Long-term liabilities:		
Notes payable (long-term)		475,000
Total liabilities		715,000
Shareholders' equity:		
Common stock (no par value; 100,000 shares authorized; 100,000 shares issued and outstanding)	$ 430,000	
Retained earnings **(2)**	310,000	
Total shareholders' equity		740,000
Total liabilities and shareholders' equity		$1,455,000

(1) $250,000 – $50,000 in land held for sale – $70,000 increase in land.
(2) $380,000 – $70,000 increase in land.

Problem 3–8

Solve for missing amounts:

Total liabilities = 120% of total shareholders' equity
Current liabilities + Long-term liabilities = Total liabilities
$12,300 + $5,500 + $200 = $18,000

Total liabilities ÷ Shareholders' equity = 1.2
$18,000 ÷ Shareholders' equity = 1.2

$18,000 ÷ 1.2 = Shareholders' equity = **$15,000**

Beginning retained earnings + Net income – Dividends = Ending retained earnings
$4,000 + $1,560 – $560 = **$5,000**

Shareholders' equity – Retained earnings = Common stock
$15,000 – $5,000 = **$10,000**

Total liabilities + Shareholders' equity = Total assets
$18,000 + $15,000 = **$33,000**

Total assets – all other assets = Patent (net)
$33,000 – $27,600 = **$5,400**

SANDERSON MANUFACTURING COMPANY

Balance Sheet

At December 31, 2024 ($ in 000s, except share data)

Assets

Current assets:		
Cash		$ 1,250
Investments		3,000
Accounts receivable	$ 3,500	
Less: Allowance for uncollectible accounts	(400)	
Net accounts receivable		3,100
Inventories:		
Raw materials and work in process	2,250	
Finished goods	6,000	8,250
Prepaid expenses		1,200
Total current assets		16,800
Property, plant, and equipment:		
Equipment	15,000	
Less: Accumulated depreciation	(4,200)	
Net property, plant, and equipment		10,800
Intangible assets:		
Patent (net)		5,400
Total assets		$ 33,000

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable		$ 5,200
Interest payable		300
Deferred revenue		1,500
Notes payable (current maturities of long-term debt)		1,000
Total current liabilities		8,000
Long-term liabilities:		
Deferred revenue	$ 1,500	
Notes payable (long-term)	3,000	
Bonds payable	5,500	
Total long-term liabilities		10,000
Total liabilities		18,000
Shareholders' equity:		
Common stock (no par, 400,000 shares authorized, 250,000 shares issued and outstanding)	10,000	
Retained earnings	5,000	
Total shareholders' equity		15,000
Total liabilities and shareholders' equity		$ 33,000

Problem 3–9

HHD, INC.
Balance Sheet
At December 31, 2024

Assets		
Current assets:		
Cash		$ 150,000
Investment in equity securities		90,000
Accounts receivable (net)		200,000
Inventory		225,000
Prepaid insurance		25,000
Total current assets		690,000
Investments:		
Investment in equity securities		410,000
Property, plant, and equipment:		
Land	800,000	
Buildings	1,500,000	
Equipment	500,000	
	2,800,000	
Less: Accumulated depreciation—buildings	(600,000)	
Less: Accumulated depreciation—equipment	(200,000)	
Net property, plant, and equipment		2,000,000
Intangible assets:		
Patent (net)	110,000	
Copyright (net)	90,000	
Total intangible assets		200,000
Total assets		$ 3,300,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable		$ 100,000
Notes payable (current)		150,000
Income taxes payable		60,000
Total current liabilities		310,000
Long-term liabilities:		
Notes payable (long-term)	$ 90,000	
Bonds payable	1,100,000	
Total long-term liabilities		1,190,000
Total liabilities		1,500,000
Shareholders' equity:		
Common stock (no par, 500,000 shares authorized, 200,000 shares issued and outstanding)	1,000,000	
Retained earnings	800,000	
Total shareholders' equity		1,800,000
Total liabilities and shareholders' equity		$ 3,300,000

Problem 3–10

MELODY LANE MUSIC COMPANY		
Balance Sheet		
At December 31, 2024		
Assets		
Current assets:		
Cash **(1)**		$167,000
Inventory		100,000
Prepaid rent		3,000
Total current assets		270,000
Property, plant, and equipment:		
Equipment	$ 40,000	
Less: Accumulated depreciation	(4,000)	
Net property, plant, and equipment		36,000
Total assets		$306,000
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable **(2)**		$ 21,000
Interest payable		9,000
Notes payable		100,000
Total current liabilities		130,000
Shareholders' equity:		
Common stock (no par, 100,000 shares authorized, 20,000 shares issued and outstanding)	$100,000	
Retained earnings **(3)**	76,000	
Total shareholders' equity		176,000
Total liabilities and shareholders' equity		$306,000

(1) Cash receipts of $560,000 less cash disbursements of $393,000.

(2) $20,000 owed to suppliers + $1,000 owed to utility company.

(3) Net income for the year.