EXERCISE 5-5 (30–35 minutes)

Uhura Company
Balance Sheet
December 31, 2007

Assets

Current assets			
Cash		$230,000	
Trading securities—at fair value		120,000	
Accounts receivable	$357,000		
Less: Allowance for doubtful accounts	17,000	340,000	
Inventories, at lower of average cost or market		401,000	
Prepaid expenses		12,000	
Total current assets			$1,103,000
Long-term investments			
Land held for future use		175,000	
Cash surrender value of life insurance		90,000	265,000
Property, plant, and equipment			
Building	$730,000		
Less: Accum. depr.—building	160,000	570,000	
Office equipment	265,000		
Less: Accum. depr.—office equipment	105,000	160,000	730,000
Intangible assets			
Goodwill			80,000
Total assets			$2,178,000

EXERCISE 5-5 (Continued)

Liabilities and Stockholders' Equity

Current liabilities			
Accounts payable		$ 135,000	
Notes payable (due next year)		125,000	
Rent payable		49,000	
Total current liabilities			$309,000
Long-term liabilities			
Bonds payable	$500,000		
Add: Premium on bonds payable	53,000	$553,000	
Pension obligation		82,000	635,000
Total liabilities			944,000
Stockholders' equity			
Common stock, $1 par, authorized 400,000 shares, issued 290,000 shares	290,000		
Additional paid-in capital	160,000	450,000	
Retained earnings		784,000*	
Total stockholders' equity			1,234,000
Total liabilities and stockholders' equity			$2,178,000

*$2,178,000 – $944,000 – $450,000

EXERCISE 5-6 (30–35 minutes)

Geronimo Company
Balance Sheet
July 31, 2007

Assets

Current assets			
Cash		$60,000*	
Accounts receivable	$46,700**		
Less: Allowance for doubtful accounts	3,500	43,200	
Inventories		65,300***	
Total current assets			$168,500
Long-term investments			
Bond sinking fund			15,000
Property, plant, and equipment			
Equipment		112,000	
Less: Accumulated depreciation—equipment		28,000	84,000
Intangible assets			
Patents			21,000
Total assets			$288,500

*($69,000 – $15,000 + $6,000)
**($52,000 – $5,300)
***($60,000 + $5,300)

EXERCISE 5-6 (Continued)

Liabilities and Stockholders' Equity

Current liabilities		
Notes and accounts payable	$ 52,000****	
Taxes payable	6,000	
Total current liabilities		58,000
Long-term liabilities		75,000
Total liabilities		133,000
Stockholders' equity		155,500
Total liabilities and stockholders' equity		$288,500

****($44,000 + $8,000)

EXERCISE 5-11 (25–30 minutes)

Kelly Corporation
Balance Sheet
December 31, 2007

Assets

Current assets		
Cash	$ 6,850	
Office supplies	1,200	
Prepaid insurance	1,000	
Total current assets		$ 9,050
Equipment	48,000	
Less: Accumulated depreciation	4,000	44,000
Intangible assets—trademark		950
Total assets		$54,000

Liabilities and Stockholders' Equity

Current liabilities		
Accounts payable	$10,000	
Wages payable	500	
Unearned service revenue	2,000	
Total current liabilities		$12,500
Long-term liabilities		
Bonds payable		9,000
Total liabilities		21,500
Stockholders' equity		
Common stock		10,000
Retained earnings ($25,000 – $2,500*)		22,500
Total stockholders' equity		32,500
Total liabilities and stockholders' equity		$54,000

*[$10,000 – ($9,000 + $1,400 + $1,200 + $900)]

EXERCISE 5-15 (25–35 minutes)

(a)

Zubin Mehta Corporation
Statement of Cash Flows
For the Year Ended December 31, 2007

Cash flows from operating activities		
Net income		$160,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	$17,000	
Loss on sale of investments	10,000	
Decrease in accounts receivable	5,000	
Decrease in current liabilities	(17,000)	15,000
Net cash provided by operating activities		175,000
Cash flows from investing activities		
Sale of investments [($74,000 – $52,000) – $10,000]	12,000	
Purchase of equipment	(58,000)	
Net cash used by investing activities		(46,000)
Cash flows from financing activities		
Payment of cash dividends		(30,000)
Net increase in cash		99,000
Cash at beginning of year		78,000
Cash at end of year		$177,000

(b)

Free Cash Flow Analysis

Net cash provided by operating activities	$175,000
Less: Purchase of equipment	(58,000)
Dividends	(30,000)
Free cash flow	$ 87,000

EXERCISE 5-16 (20–25 minutes)

(a) **Shabbona Corporation**
Statement of Cash Flows
For the Year Ended December 31, 2007

Cash flows from operating activities		
Net income		$125,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	$27,000	
Increase in accounts receivable	(16,000)	
Decrease in inventory	9,000	
Decrease in accounts payable	(13,000)	7,000
Net cash provided by operating activities		132,000
Cash flows from investing activities		
Sale of land	39,000	
Purchase of equipment	(60,000)	
Net cash used by investing activities		(21,000)
Cash flows from financing activities		
Payment of cash dividends		(60,000)
Net increase in cash		51,000
Cash at beginning of year		22,000
Cash at end of year		$ 73,000

Noncash investing and financing activities
Issued common stock to retire $50,000 of bonds outstanding

EXERCISE 5-16 (Continued)

(b) Current cash debt coverage ratio =

$$= \frac{\text{Net cash provided by operating activities}}{\text{Average current liabilities}}$$

$$= \frac{\$132,000}{(\$34,000 + \$47,000) / 2}$$

$$= 3.26 \text{ to } 1$$

Cash debt coverage ratio =

$$\frac{\text{Net cash provided by operating activities}}{\text{Average total liabilities}} =$$

$$\$132,000 \div \frac{\$184,000 + \$247,000}{2} =$$

.61 to 1

Free Cash Flow Analysis

Net cash provided by operating activities	**$132,000**
Less: Purchase of equipment	**(60,000)**
Dividends..	**(60,000)**
Free cash flow	**$ 12,000**

Shabbona has excellent liquidity. Its financial flexibility is good. It might be noted that it substantially reduced its long-term debt in 2007 which will help its financial flexibility.

EXERCISE 5-17 (30–35 minutes)

(a)

Grant Wood Corporation
Statement of Cash Flows
For the Year Ended December 31, 2007

Cash flows from operating activities		
Net income		$55,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss on sale of equipment	$ 2,000*	
Depreciation expense	13,000	
Patent amortization	2,500	
Increase in current liabilities	13,000	
Increase in current assets (other than cash)	(29,000)	1,500
Net cash provided by operating activities		56,500
Cash flows from investing activities		
Sale of equipment	10,000	
Addition to building	(27,000)	
Investment in stock	(16,000)	
Net cash used by investing activities		(33,000)
Cash flows from financing activities		
Issuance of bonds	50,000	
Payment of dividends	(30,000)	
Purchase of treasury stock	(11,000)	
Net cash provided by financing activities		9,000
Net increase in cash		$32,500[a]

*[$10,000 – ($20,000 – $8,000)]

[a]An additional proof to arrive at the increase in cash is provided as follows:

Total current assets—end of period	$296,500	[from part (b)]
Total current assets—beginning of period	235,000	
Increase in current assets during the period	61,500	
Increase in current assets other than cash	29,000	
Increase in cash during year	$ 32,500	

EXERCISE 5-17 (Continued)

(b)

Grant Wood Corporation
Balance Sheet
December 31, 2007

Assets

Current assets			$296,500[b]
Long-term investments			16,000
Property, plant, and equipment			
Land		$ 30,000	
Building ($120,000 + $27,000)	$147,000		
Less: Accum. depreciation ($30,000 + $4,000)	(34,000)	113,000	
Equipment ($90,000 – $20,000)	70,000		
Less: Accum. depreciation ($11,000 – $8,000 + $9,000)	(12,000)	58,000	
Total property, plant, and equipment			201,000
Intangible assets—patents ($40,000 – $2,500)			37,500
Total assets			$551,000

Liabilities and Stockholders' Equity

Current liabilities ($150,000 + $13,000)		$163,000
Long-term liabilities		
Bonds payable ($100,000 + $50,000)		150,000
Total liabilities		313,000
Stockholders' equity		
Common stock	$180,000	
Retained earnings ($44,000 + $55,000 – $30,000)	69,000	
Total paid-in capital and retained earnings	249,000	
Less: Cost of treasury stock	(11,000)	
Total stockholders' equity		238,000
Total liabilities and stockholders' equity		$551,000

[b] The amount determined for current assets could be computed last and then is a "plug" figure. That is, total liabilities and stockholders' equity is computed because information is available to determine this amount. Because the total assets amount is the same as total liabilities and stockholders' equity amount, the amount of total assets is determined. Information is available to compute all the asset amounts except current assets and therefore current assets can be determined by deducting the total of all the other asset balances from the total asset balance (i.e., $551,000 – $37,500 – $201,000 – $16,000). Another way to compute this amount, given the information, is that beginning current assets plus the $29,000 increase in current assets other than cash plus the $32,500 increase in cash equals $296,500.

EXERCISE 5-18 (25–35 minutes)

(a)

Madrasah Corporation
Statement of Cash Flows
For the Year Ended December 31, 2007

Cash flows from operating activities		
Net income		$44,000
Adjustment to reconcile net income to net cash provided by operating activities:		
Depreciation	$ 6,000	
Increase in accounts payable	5,000	
Increase in accounts receivable	(18,000)	(7,000)
Net cash provided by operating activities		37,000
Cash flows from Investing activities		
Purchase of equipment		(17,000)
Cash flows from financing activities		
Issuance of stock	20,000	
Payment of dividends	(33,000)	
Net cash used by financing activities		(13,000)
Net increase in cash		$ 7,000
Cash at beginning of year		13,000
Cash at end of year		$20,000

	2007	2006
(b) Current ratio	6.3	6.73
	$126,000	$101,000
	$ 20,000	$ 15,000

Free Cash Flow Analysis

Net cash provided by operating activities	$ 37,000
Less: Purchase of equipment	(17,000)
Pay dividends	(33,000)
Free cash flow	$ (13,000)

(c) Although, Madrasah's current ratio has declined from 2006 to 2007, it is still in excess of 6. It appears the company has good liquidity and financial flexibility.

PROBLEM 5-4

Russell Crowe Corporation
Balance Sheet
December 31, 2007

Assets

Current assets			
Cash		$175,900	
Accounts receivable		170,000	
Inventories		312,100	
Total current assets			$658,000
Long-term investments			
Assets allocated to trustee for expansion:			
Cash in bank		70,000	
U.S. Treasury notes, at fair value		138,000	208,000
Property, plant, and equipment			
Land		750,000	
Buildings	$1,070,000[a]		
Less: Accum. depreciation—buildings	410,000	660,000	1,410,000
Total assets			$2,276,000

Liabilities and Stockholders' Equity

Current liabilities		
Notes payable—current installment	$100,000	
Federal income taxes payable	75,000	
Total current liabilities		$ 175,000

PROBLEM 5-4 (Continued)

Long-term liabilities		
Notes payable		500,000[b]
Total liabilities		675,000
Stockholders' equity		
Common stock, no par; 1,000,000 shares authorized and issued; 950,000 shares outstanding	$1,150,000	
Retained earnings	538,000[c]	
	1,688,000	
Less: Treasury stock, at cost (50,000 shares)	(87,000)	
Total stockholders' equity		1,601,000
Total liabilities and stockholders' equity		$2,276,000

[a]$1,640,000 – $570,000 (to eliminate the excess of appraisal value over cost from the Buildings account. Note that the appreciation capital account is also deleted.)

[b]$600,000 – $100,000 (to reclassify the currently maturing portion of the notes payable as a current liability.)

[c]$658,000 – $120,000 (to remove the value of goodwill from retained earnings. Note 2 indicates that retained earnings was credited. Note that the goodwill account is also deleted.)

Note: As an alternate presentation, the cash restricted for plant expansion would be added to the general cash account and then subtracted. The amount reported in the investments section would not change.