Name ______________________ Date ______________________

ANSWERS TO SECTION 8.3 REVIEW QUESTIONS (cont.)

6. *The two liability classifications are Current Liabilities and Long-Term Liabilities.*
7. *1) Capital 2) Drawings 3) Net income or Net loss*
8. *Working capital is the difference between the current assets and current liabilities of a business.*
9. *Long-term liabilities match up well with fixed assets.*
10. *A comparative financial statement.*
11. *Look first for items showing unusual change.*
12. *The divisor for a common-size balance sheet is the total assets figure.*
13. *Creditors can claim 75 cents of each dollar of business assets.*

ANSWERS TO SECTION 8.3 EXERCISES (text p. 276)

Exercise 1, p. 276

A.	Current assets:	*$ 34 117.36*
B.	Fixed assets:	*$122 606.90*
C.	Current liabilities:	*$ 17 216.35*
D.	Long-term liabilities:	*$ 48 000.00*
E.	Working capital:	*$ 16 901.01*
F.	Mortgage payable:	*$ 50 000.00*

Name ______________________ Date ______________________

ANSWERS TO SECTION 8.3 EXERCISES (cont.)

Exercise 2, p. 277

Stanley Park Enterprises

Balance Sheet

June 30, 20—

Assets			
Current Assets			
Bank		$ 3 050.15	
Accounts Receivable		26 750.85	
Supplies		3 500.00	$ 33 301.00
Plant and Equipment			
Equipment		$ 75 352.00	
Automobiles		42 500.00	
Land		100 000.00	
Building		124 364.00	342 216.00
Total Assets			$375 517.00
Liabilities and Owner's Equity			
Current Liabilities			
Accounts Payable		$ 3 900.95	
GST Payable	$ 460.50		
Less GST Recoverable	235.90	224.60	
PST Payable		650.00	$ 4 775.55
J. Hori, Capital			
Balance, January 1, 20—		$366 485.95	
Net Income	$60 255.50		
Drawings	56 000.00		
Increase in Capital		4 255.50	
Balance, June 30, 20—			370 741.45
Total Liabilities and Equity			$375 517.00

Name ______________________ Date ______________________

ANSWERS TO SECTION 8.3 EXERCISES (cont.)

Exercise 3, p. 277

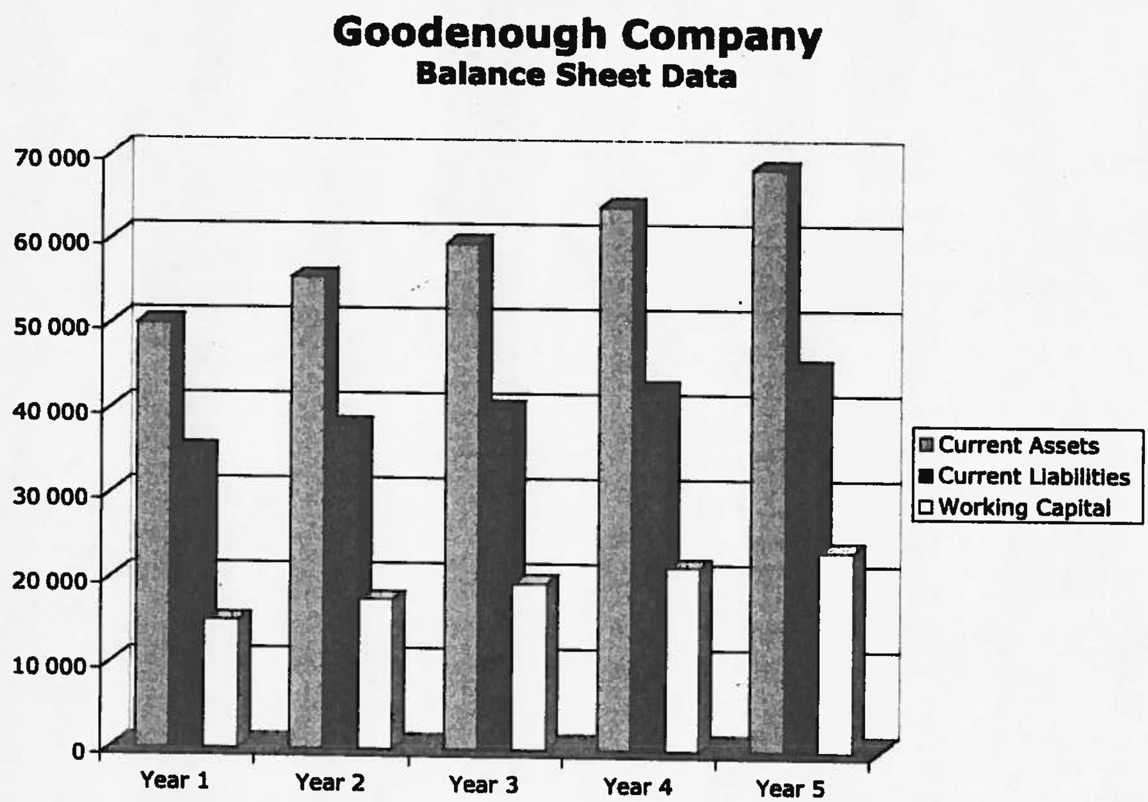
A., B.

Goodenough Company
Balance Sheet Data

	Year 1	%*	Year 2	%	Year 3	%	Year 4	%	Year 5	%
Current Assets	$50 000	*100.0*	$55 500	*111.0*	$59 500	*119.0*	$64 000	*128.0*	$68 500	*137.0*
Current Liabilities	35 000	*100.0*	38 000	*108.6*	40 000	*114.3*	42 500	*121.4*	45 000	*128.6*
Working Capital	*$15 000*	*100.0*	*$17 500*	*116.7*	*$19 500*	*130.0*	*$21 500*	*143.3*	*$23 500*	*156.7*

* Calculate percent of Year 1 amount.

C.



Name ______________________ Date ______________________

ANSWERS TO SECTION 8.3 EXERCISES (cont.)

Exercise 4, p. 278

A.

Balance Sheets
December 31, 20—

Items	Neon Company		Radon Company	
	$	%	$	%
Assets				
Bank	$ 3 000	*1.6%*	$14 500	*14.6%*
Accounts Receivable	10 000	*5.5%*	5 500	*5.6%*
Plant and Equipment	132 000	*72.1%*	53 000	*53.5%*
Automobiles	38 000	*20.8%*	26 000	*26.3%*
Total Assets	$183 000	*100.0%*	$99 000	*100.0%*
Liabilities and Equity				
Accounts Payable	$ 19 000	*10.4%*	$ 2 200	*2.2%*
Mortgage Payable	92 500	*50.5%*	18 000	*18.2%*
Owner's Equity	71 500	*39.1%*	78 800	*79.6%*
Total Liabilities and Equity	$183 000	*100.0%*	$99 000	*100.0%*

B. *Neon Company's cash and receivables total $13 000. The trade debts amount to $19 000. This indicates some difficulty in paying its debts. By contrast, Radon Company is well positioned to pay its debts. It has $20 000 in cash and receivables, but only needs $2 200.*

C. *Neon Company's total debt amounts to 60.9 per cent. Radon Company's total debt amounts to 20.4 per cent. Another way of looking at this is that Neon Company's owners have 39.1 per cent of their own money in the business, whereas Radon Company's owners have 79.6 per cent. Radon Company's situation is preferred by the company's creditors.*

(Note: Because of rounding off, figures sometimes will not sum to 100%. The authors have slightly altered the results in the 0.1% range by electing not to round off certain figures, in order to produce a 100% sum.)

Name ______________________ Date ______________________

ANSWERS TO SECTION 8.3 EXERCISES (cont.)

Exercise 5, p. 278

A.

Balance Sheets
December 31, 20—

Items	Leo Company		Capricorn Company	
	$	**%**	**$**	**%**
Assets				
Bank	$ 1 000	*0.4%*	$ 31 000	*14.1%*
Accounts Receivable	25 000	*11.1%*	–	–
Plant and Equipment	150 000	*66.4%*	160 000	*72.7%*
Automobiles	50 000	*22.1%*	29 000	*13.2%*
Total Assets	$226 000	*100.0%*	$220 000	*100.0%*
Liabilities and Equity				
Accounts Payable	$ 25 000	*11.1%*	$ 11 000	*5.0%*
Loan Payable—Automobile	20 000	*8.8%*	20 000	*9.1%*
Mortgage Payable	–	–	150 000	*68.2%*
Owner's Equity	181 000	*80.1%*	39 000	*17.7%*
Total Liabilities and Equity	$226 000	*100.0%*	$220 000	*100.0%*

B. *Both companies are acceptable in regard to payment of accounts payable, but Leo Company is barely so.*

The plant and equipment of Leo Company is fully paid for. The plant and equipment of Capricorn Company is heavily mortgaged.

The owners of Leo Company own 80.1 per cent of it. The owners of Capricorn Company only own 17.7 per cent of it.

(Note: Because of rounding off, figures sometimes will not sum to 100%. The authors have slightly altered the results in the 0.1% range by electing not to round off certain figures, in order to produce a 100% sum.)