

P2-1

Oshkosh B’Gosh Inc.

Consolidated Balance Sheets

12/31/00	Aggregated	
	12/31/99	
Liquid assets	45,757	40,816
Inventories 68,226	65,584	
Other current assets	17,065	17,562
Total current assets	131,048	123,962
Long-term assets	43,740	38,606
Total assets 174,788	162,568	
Current liabilities	48,286	47,086
Employee benefit plan liabilities	13,345	12,465
Total liabilities	61,631	59,551
Shareholders’ equity	113,157	103,017
Total liabilities & shareholders’ equity	174,788	162,568

Oshkosh B’Gosh Inc.

Consolidated Balance Sheets

Aggregated & rounded

12/31/00	12/31/99	
Liquid assets	45.8	40.8
Inventories 68.2	65.6	
Other current assets	17.1	17.6
Total current assets	131.1	124.0
Long-term assets	43.7	38.6
Total assets 174.8	162.6	
Current liabilities	48.3	47.1
Employee benefit plan liabilities	13.3	12.5
Total liabilities	61.6	59.6
Shareholders’ equity	113.2	103.0
Total liabilities & shareholders’ equity	174.8	162.6

Aggregating makes it easy to identify that the decrease in total assets comes mostly from decreases in liquid assets, inventories and long-term assets. Decreases mostly in Shareholders’ equity maintain the balance in the balance sheet.

Rounding makes these observations even easier to make.

P2-2

Example: Issued 10,000 shares of stock for \$2 per share.

Assets	-	Liabilities	=	Equities
+20,000				+20,000
(Cash)				(Common Stock)

Comments:

Frank’s receipt of \$20,000 in cash is surely something that we would want to record. Recognition is the act of recording an item in the accounting equation. So we want to recognize the \$20,000 cash as an asset.

To maintain the equation, we must increase something on the right-hand-side. So either Liabilities or Equities must go up by \$20,000. This decision is one of classification.

Because the accounting equation is being formed from Frank’s point of view, we should increase Equities, not Liabilities.

a. Borrowed \$5,000 from State Bank

Assets	-	Liabilities	=	Equities
+5,000 (Cash)		+5,000 (Bank Loan)		

Comments:

Surely we want to recognize Frank’s receipt of \$5,000 in cash. So Assets increase by \$5,000. (Recognition)

Because Frank has an obligation to repay the loan, we should maintain the equation by increasing Liabilities. (Classification)

b. Purchased equipment, paying \$3,000 cash

Assets	-	Liabilities	=	Equities
-3,000				
(Cash)				
+3,000				
(Equipment)				

Comments:

The exchange of cash for equipment transforms one type of asset (cash) into

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another (equipment). Therefore, total Assets will not change, nor will the sum of Liabilities and Equities.

We would still want to recognize this event. It is probably very important to keep track of how much cash Frank has, and it is now \$3,000 less. (Recognition)

Since one asset, cash, is less, we must create another asset, equipment to maintain the equation. (Classification)

c. Purchased \$8,000 of inventory on credit. Payment is due in 30 days.

Assets	-	Liabilities	=	Equities
+8,000 (Inventory)		+8,000 (Accounts Payable)		

Comments:

We want to recognize Frank's receipt of \$8,000 of inventory. So Assets increase by \$8,000. (Recognition)

Because Frank has an obligation to repay the account, we should maintain the equation by increasing Liabilities. (Classification)

d. Sold inventory costing \$4,000 to customers on credit. The sales price was \$6,000, and payment is due in 30 days.

Assets	-	Liabilities	=	Equities
-4,000 (Inventory)				-4,000 (Retained Earnings)
+6,000 (Accounts Receivable)				+6,000 (Retained Earnings)

Comments:

We want to recognize the movement of \$4,000 inventory from Frank to customers. (Recognition)

The most common course of events is that the customers will keep the inventory and pay their accounts. If so, the equation would be maintained by reducing Equities by \$4,000. Note: This is just the effect of the reduction in Frank's inventory. (Classification)

Again presuming the most common course of events, customers now owe Frank \$6,000. Customers' promises to pay, assuming they will be fulfilled, are an asset to Frank. Frank would create an asset, Accounts Receivable, to recognize the value of these rights to collect cash in the future. (Recognition and Classification)

tion)

To maintain the equation, Equities should be increased by \$6,000. (Classification)

Question: What if customers never paid their debts and it was impossible to retrieve the inventory from them? (This is the equivalent of shoplifting.) Then no asset of \$6,000 for the rights to try to collect should be recognized. Equity would be reduced. (Recognition and Classification)

Question: What if few customers paid their debts, but the inventory could be retrieved from them at no cost and in perfect condition? No asset of \$6,000 for the rights to collect should be recognized. To maintain the equation, another asset, perhaps called "Inventory in the hands of potential customers" should be created in the amount of \$4,000. Collection would be recognized when it occurred. (Classification)

e. Paid \$7,000 cash to suppliers of inventory in partial fulfillment of amounts owed.

Assets	-	Liabilities	=	Equities
-7,000 (Cash)		-7,000 (Accounts Payable)		

Comments:

Frank's cash decreases by \$7,000. (Recognition)

Frank relieves part of a previously recognized obligation, therefore Liabilities decrease by \$7,000. (Recognition)

f. Received \$6,000 cash from customers for amounts owed by them.

Assets	-	Liabilities	=	Equities
+6,000 (Cash)				
		-6,000 (Receivables)		

Comments:

If we recorded Accounts Receivable in d above, this collection of cash is the transformation of one type of asset (receivable) into

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another (cash). It will not change total Assets, nor will it change the sum of Liabilities and Equities. (Recognition and Classification)

If we did not record the Accounts Receivable as in Comment 5 in d above, we would record the \$6,000 increase in Assets and a \$6,000 in Equities. (Recognition and Classification)

If we did not record the Accounts Receivable as in Comment 6 in d above, we would record the \$6,000 increase in cash, a \$4,000 decrease in "Inventory in the hands of potential customers," and a (net) \$2,000 increase in Equities. (Recognition and Classification)

g. Declared and paid a cash dividend to shareholders in the amount of \$2,000.

Assets	-	Liabilities	=	Equities
-2,000				-2,000
(Cash)				(Retained Earnings)

Comments:

Frank's cash decreases by \$2,000. (Recognition)

Frank returns an amount to shareholders, therefore decreasing Equities by \$2,000. (Classification)

This transaction should be compared with the Example at the beginning of this problem and with item d. Equities change in each of these items, but for different reasons. Equities increase in the Example because of a contribution from shareholders. Equities decrease in g because of a distribution to shareholders. Equities increase in d because of profitable operations.

P2-3

Here are journal entries. The students have not yet been introduced to them. Therefore, they will use t-accounts like the second answer below.

	Cash	20,000	
	Common stock		20,000
a.	Cash	5,000	
	Bank loan		5,000
b.	Equipment	3,000	
	Cash		3,000

c.	Inventory	8,000	
	Accounts payable		8,000
d.	Retained earnings	4,000	
	Inventory		4,000
	Accounts receivable	6,000	
	Retained earnings		6,000
e.	Accounts payable	7,000	
	Cash		7,000
f.	Cash	6,000	
	Accounts receivable		6,000
g.	Retained earnings	2,000	
	Cash		2,000

t-accounts

Cash	
BB	0
	20,000
a	5,000
f	6,000
	19,000

Accounts receivable	
BB	0
d	6,000
	6,000
	0

Inventory	
BB	0
c	8,000
EB	4,000

Equipment	
BB	0
b	3,000
EB	3,000

Accounts payable	
E	7,000
	1,000
	8,000

Bank loan	
	0
	5,000
	5,000

Retained earnings	
	0
	0

Common stock	
	0
	0

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D	4,000	6,000 c	20,000
G	2,000		
		0 EB	20,000 EB

P2-4

DAIMLERCHRYSLER AG

Aggregated Balance Sheets – Asset Side Only

(in millions)

	Consolidated	
	At December 31, 1998	1997
	[EURO]	[EURO]
Fixed assets	49,606	44,469
Inventories	11,796	10,897
Receivables	44,848	40,358
Cash & securities	18,749	16,989
Other assets	11,150	12,118
Total assets	136,149	124,831

DAIMLERCHRYSLER AG

Aggregated and Rounded Balance Sheets – Asset Side Only (in billions)

	Consolidated At December 31,	
	1998	1997
	[EURO]	[EURO]
Fixed assets	50	44
Inventories	12	11
Receivables	45	40
Cash & securities	19	17
Other assets	11	12
Total assets	137	124

Note the slight rounding errors in the rounded total assets. If this is troublesome, we could round before we calculate totals.

P2-5

	2001	2000
a. <u>Current Assets</u>	\$1,207,920	\$1,300,000
<u>Current Liabilities</u>	921,414	974,900
	1.31	

At December 31, 2000, Amazon.com had \$1.40 in current assets for every dollar in current liabilities. At December 31, 2001, that number had fallen to \$1.31 in current assets for every dollar of current liabilities. The ratio has deteriorated.

b. Cash equivalents are highly liquid short-term investments. They would include items like bank accounts, treasury bills, and money market funds. They are included with cash because they can readily be converted to cash with little risk of loss of value.

c. Marketable securities are short-term investments in financial assets, such as shares of stocks and bonds. Marketable securities are generally carried on the balance sheet at their market values, meaning that the accounting value is probably close to the market value on the balance sheet date.

d. The debt-to-equity ratio is computed by dividing total liabilities by total stockholders' equity. The ratio determines the relative amount of financing supplied by owners versus creditors. Since Amazon.com has negative total stockholders' equity, this ratio cannot be computed. This would indicate an extremely risky balance sheet, as Amazon.com's creditors have actually supplied nearly \$2.00 in financing for every \$1.00 of assets.

e. The total amounts paid by shareholders to Amazon.com was \$1,466,501,000 at December 31, 2001. This includes the totals of Common stock (\$3,732) and Additional paid-in-capital (\$1,462,769) (000's).

f. The accounting value of the wealth of Amazon.com's shareholders at December 31, 2001 was a deficit of \$1,440,000,000. Because Amazon.com's liabilities exceed its assets, shareholders had a negative accounting value.

g. Total shares issued and outstanding at 12/31/01: 373,218,000

	Low value	High value
Shares outstanding	373,218,000	373,218,000
Market price per share	\$5.51	\$20.40
Total market value:	\$2,056,431,180	\$7,613,647,200

h. The market's valuation of Amazon.com is significantly higher than its accounting valuation. This may be due to a significant value attached to Amazon.com's name recognition, a valuation that is not recognized on Amazon.com's balance sheet. In addition, market valuation is influenced by investor perceptions of

future events, rather than strictly a reflection of past transactions.

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i. The increase in the accumulated deficit represents the net loss for 2001.

Accumulated deficit at 12/31/2000:	\$2,293,301,000
Accumulated deficit at 12/31/01:	2,860,578,000
Net loss for 2001:	\$ 567,277,000

j. The gain is the difference between the value of the asset written off (\$14 million) and the value of the liability removed from the balance sheet (\$20 million). Since the liability to living.com exceeded the asset value of the investment, the transaction resulted in a net gain to Amazon.com.

k.	ASSETS	=	LIABILITIES	+	EQUITY
	-\$14 Million	=	-\$20 Million	+	\$6 Million

P2-6

a. Issued 15,000 shares of common stock for \$3 per share.

Assets	-	Liabilities	=	Equities
+45,000				+45,000
(Cash)				(Common Stock)

Comments:

Antler's receipt of \$45,000 in cash is surely something that we would want to record. Recognition is the act of recording an item in the accounting equation. So we want to recognize the \$45,000 cash as an asset.

To maintain the equation, we must increase something on the right-hand-side. So either Liabilities or Equities must go up by \$45,000. This decision is one of classification.

Because the accounting equation is being formed from Antler's point of view, we should increase Equities, not Liabilities.

b. Purchased \$9,000 of inventory on credit.

Assets	-	Liabilities	=	Equities
+9,000		+9,000		
(Inventory)		(Accounts Payable)		

Comments:

We want to recognize Antler's receipt of \$9,000 of inventory. So Assets increase by \$9,000. (Recognition)

Because Antler has an obligation to repay the account, we should maintain the equation by increasing Liabilities. (Classification)

c. Borrowed \$6,000 from State Bank.

Assets	-	Liabilities	=	Equities
+6,000		+6,000		
(Cash)		(Note payable to State Bank)		

Comments:

Surely we want to recognize Antler's receipt of \$6,000 in cash. So Assets increase by \$6,000. (Recognition)

Because Antler has an obligation to repay the loan, we should maintain the equation by increasing Liabilities. (Classification)

k.	ASSETS	=	LIABILITIES	+	EQUITY
	-\$14 Million	=	-\$20 Million	+	\$6 Million

d. Purchased canvass sheets, paying \$500 cash.

Assets	-	Liabilities	=	Equities
-500				
(Cash)				
+500				
(Supplies - Canvass sheets)				

Comments:

The exchange of cash for equipment transforms one type of asset (cash) into another (canvass). Therefore, total Assets will not change, nor will the sum of Liabilities and Equities.

We would still want to recognize this event. It is probably very important to keep track of how much cash Antler has, and it is now \$500 less. (Recognition)

Since one asset, cash, is less, we must create another asset, Supplies—Canvass sheets to maintain the equation. (Classification)

e. Paid \$8,000 cash to suppliers of inventory in partial fulfillment of amounts owed.

Assets	-	Liabilities	=	Equities
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-8,000 (Cash)	-8,000 (Accounts Payable)
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Comments:

Antler's cash decreases by \$8,000. (Recognition)

Antler relieves part of a previously recognized obligation, therefore Liabilities decrease by \$8,000. (Recognition)

f. Purchased equipment, paying \$3,000 cash.

Assets	-	Liabilities	=	Equities
-3,000 (Cash)				
+3,000 (Equipment)				

Comments:

The exchange of cash for equipment transforms one type of asset (cash) into another (equipment). Therefore, total Assets will not change, nor will the sum of Liabilities and Equities.

We would still want to recognize this event. It is probably very important to keep track of how much cash Antler has, and it is now \$3,000 less. (Recognition)

Since one asset, cash, is less, we must create another asset, equipment to maintain the equation. (Classification)

g. Sold canvass sheets in exchange for a \$500 note receivable.

Assets	-	Liabilities	=	Equities
-500 (Supplies Canvass sheets)				-500 (Retained Earnings)
+500 (Note Receivable)				+500 (Retained Earnings)

Comments:

We want to recognize the movement of \$500 Supplies from Antler to the purchaser. (Recognition)

The most common course of events is that the purchaser will keep the Supplies

and pay the notes. If so, the equation would be maintained by reducing Equities by \$500. Note: This is just the effect of the reduction in Antler's Supplies. (Classification)

Again presuming the most common course of events, the purchaser now owes Antler \$500. The purchaser's promise to pay, assuming it will be fulfilled, is an asset to Antler. Antler would create an asset, Note Receivable, to recognize the value of the rights to collect cash in the future. (Recognition and Classification)

To maintain the equation, Equities should be increased by \$500. (Classification)

Question: What if purchasers never paid their debts and it was impossible to retrieve the Supplies from them? (This is the equivalent of shoplifting.) Then no asset of \$500 for the rights to try to collect should be recognized. Equity would be reduced. (Recognition and Classification)

Question: What if few purchasers paid their debts, but the Supplies could be retrieved from them at no cost and in perfect condition? No asset of \$500 for the right to collect should be recognized. To maintain the equation, another asset, perhaps called "Inventory in the hands of potential purchasers" should be created in the amount of \$500. Collection would be recognized when it occurred. (Classification)

h. Received an extension of the maturity of the note to June 30, 2005.

Assets	-	Liabilities	=	Equities
		+6,000 (Short-term liabilities)		
		-6,000 (Long-term liabilities)		

Comments:

The reclassification should reflect the different maturity date.

i. Declared and paid a cash dividend to shareholders in the amount of \$3,000.

Assets	-	Liabilities	=	Equities
-3,000 (Cash)				-3,000 (Retained Earnings)

Comments:

Antler's cash decreases by \$3,000. (Recognition)

Antler returns an amount to shareholders, therefore decreasing

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BB	0	
a	45,000	500 d
c	6,000	
EB	50,500	

BB	0	
d	500	
	500	

Inventory		
BB	0	
b	9,000	
EB	9,000	

Note Receivable		
BB	0	
EB		

Equipment		
BB	0	
EB		

Accounts payable		
	0	
	9,000 b	
	9,000 EB	

Bank loan—short-term		
	0 BB	
	6,000 c	
	6,000 EB	

Bank loan—long-term		
	0 BB	
		EB

Retained earnings		
	0 BB	
	0 EB	

Common stock		
	0 BB	
	45,000 a	
	45,000 EB	

**b. Antler Corp.
Balance Sheet**

Cash	\$50,500	Accounts payable	\$9,000
Inventory	9,000	Bank loan—short-term	6,000
Supplies	500	Common stock	45,000
Total assets	\$60,000	Total liab. & equities	\$60,000

**c. Antler Corp.
Balance Sheet as of January 31, 2004**

Cash	\$36,470	Accounts payable	\$1,000
Inventory	9,000	Bank loan—long-term	6,000
Note receivable	500	Common stock	45,000
Equipment	3,000	Retained earnings	(3,030)
Total assets	\$48,970	Total liab. & equities	\$48,970

d. Only if Antler has taken steps toward the eventual earning of a profit. Based on the evidence in the problem, the best answer is no, the owners are not better off. Antler hasn't done anything to earn a profit. There are no sales to customers. The only sale is of supplies, and Antler is not in the business of selling canvass sheets.

P2-8

Transaction	Account(s) debited	Amount	Account(s) credited	Amount
1.	Cash	\$5,000,000	Common stock Additional paid-in-capital	\$100,000 \$4,900,000
2.	Cash	\$20,000	Notes Payable	\$20,000
3.	Marketable securities	\$15,000	Cash	\$15,000
4.	Equipment	\$30,000	Cash Accounts payable	\$3,000 \$27,000
5.	Inventory	\$20,000	Accounts payable	\$20,000
6.	Cash	\$30,000	Unearned revenue	\$30,000
7.	Leasehold improvements	\$200,000	Cash	\$200,000
8.	Trademarks	\$100,000	Cash	\$100,000
9.	Accounts payable	\$10,000	Cash	\$10,000

P2-9

a.

	<u>Cash</u>			
1)	5,000,000			
2)	20,000	15,000	3) 7)	
		3,000	4)	
6)	30,000			
		200,000	7)	
		100,000	8)	
		10,000	9)	
Balance	<u>4,722,000</u>		8)	
	<u>Leasehold improvements</u>			
		200,000		
	<u>Trademarks</u>			
		100,000		
	<u>Marketable Securities</u>			
3)	<u>15,000</u>			
	<u>Equipment</u>			
4)	<u>30,000</u>			
	<u>Inventory</u>			
5)	<u>20,000</u>			
		27,000	4)	
		20,000	5)	
		10,000		
		<u>37,000</u>	Balance	
	<u>Notes Payable</u>			
		20,000	2)	
	<u>Accounts Payable</u>			
		27,000	4)	
		20,000	5)	
		10,000		
		<u>37,000</u>	Balance	
	<u>Unearned revenue</u>			
		30,000	6)	
	<u>Common Stock</u>			
		100,000	1)	

	<u>Additional Paid in Capital</u>	
	4,900,000	1)

b.

**A & E Corporation
Trial Balance**

January 31, 2003

	Debit	Credit
Cash	\$4,722,000	
Marketable Securities	15,000	
Inventory	20,000	
Equipment	30,000	
Leasehold Improvements	200,000	
Trademarks	100,000	
Notes Payable		\$ 20,000
Accounts Payable		37,000
Unearned Revenue		30,000
Common Stock		100,000
Additional Paid-in-Capital		4,900,000
Totals	\$5,087,000	\$5,087,000

c.

**A & E Corporation
Balance Sheet January 31, 2003**

ASSETS

Current Assets:	
Cash	\$4,722,000
Marketable securities	15,000
Inventory	20,000
Total Current Assets	\$ 4,757,000
Property, Plant & Equipment	
Equipment	30,000
Leasehold improvements	200,000
Trademarks	100,000
Total Property, Plant & Equipment	330,000
Total Assets	\$ 5,087,000

LIABILITIES

Current Liabilities:

Accounts Payable	\$37,000	
Unearned Revenue	30,000	
Total Current Liabilities		\$67,000
Long-term Liabilities:		
Notes Payable	20,000	
<u>Total Liabilities:</u>		<u>\$87,000</u>

EQUITY		
Common Stock, \$1 Par Value	\$100,000	
Additional Paid-in-Capital	4,900,000	
<u>Total Equity</u>		<u>\$5,000,000</u>

Total Liabilities and Equity	\$5,087,000
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d. Current ratio: $\frac{\text{Current Assets } \$4,757,000}{\text{Current Liabilities } 67,000} = 71$

Debt-to-Equity ratio: $\frac{\text{Total Liabilities } \$87,000}{\text{Total Equity } 5,000,000} = .017$

Both the current ratio and the debt-to-equity ratio are unusually good. The current ratio of 71 means that, at January 31, 2003, the company has \$71 in current assets for every dollar of current liabilities. The debt-to-equity ratio of .017 means that for every dollar of financing supplied by owners, an additional 1.7 cents is supplied by creditors. The ratios are not meaningful at this point in time because A&E has not begun operations. As a start-up, the company may not be profitable for several years. Much of the capital supplied by the initial investors will be used to operate the business.

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Cash		Accounts Rec.	
BB	6,748	BB	3,258.0
a	200		300 e
b	300	c	10 I
	150	d	
	400		
e	300		
	250 f		
			<u>2,948</u>

40	g	Def Tx's & Other	
30	h BB	1,072	
		1,072	
<u>6,678</u>		<u>12,316</u> BB	
	f	250	
			<u>12,066</u>
		Bank Loan	
		-	BB
		200	a
		200	
		Accrued Liab's	
			6,368 BB
			<u>6,368</u>

Note receivable (related party)		Inventory	
BB	721	BB	24,123
		d	400
	721		<u>24,523</u>

Property & equipment		Other Assets	
BB	16,597	BB	869
c	150		
	<u>16,747</u>		<u>869</u>

Accrued Compensation		Note receivable	
h	30	BB	-
		BB	
	1,979	I	10

	1,949
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10

Other Liabilities	
	1,380
	1,380

BB

Prepaid Expenses	
906	
40	
946	

BB
g

Deferred Inc Taxes	
757	
757	

BB

Common Stock	
	91
	1
	92

BB

Add'l Paid-in Capital	
	19,564
	299
	19,863

BB

Retained Earnings	
	13,353
	13,353

BB

Cache, Inc.
Balance Sheet as of 12/30/00

Cash equivalents	\$6,678	Accounts payable	\$12,066
Accounts receivable	2,948	Accrued compensation	1,949
Note receivable from customer	10	Bank loan	200
Note receivable from related party	721	Accrued liabilities	6,368
Inventory	24,523	Total Current Liabilities	20,583
Deferred taxes & other assets	1,072		
Prepaid expenses	946	Other liabilities	1,380
Total Current Assets	36,898	Total Liabilities	21,963
		Shareholders' Equity	
Property & equipment	16,747	Common Stock	92
Other assets	869	Add'l Paid-in Capital	19,863
Deferred income taxes	757	Retained Earnings	13,353
Total Non-current Assets	18,373	Total Shareholders' Equity	33,308
Total Assets	\$55,271	Total Liabilities & Shareholders' Equity	55,271