

# [Acme company](https://assignbuster.com/acme-company/)

[](https://assignbuster.com/)[Finance](https://assignbuster.com/essay-subjects/finance/)

Finance and Accounting of Response to Problem Acme Company Income ment for the year Sales126, 000   
Less Operating Expenses 80, 200   
Income 45, 800   
Less Tax (30%) 13, 740   
Net Income 31, 060   
Statement of Returned Earnings   
Net Income for the year 201231, 060   
Less Dividends20, 000   
Retained Earnings 201211, 060   
Acme Company   
Balance Sheet   
Current Assets   
Cash25, 000   
Accounts Receivable20, 300   
Inventory81, 000   
Total Current Assets126, 300   
Non-Current Assets   
Equipment60, 700   
Less Accumulated Depreciation20, 000   
Total Non-current Assets 40, 700   
Total Assets167, 000   
Liabilities and Capital   
Current Liabilities   
Accounts Payable66, 140   
Accrued Salary 1, 800   
Total Current Liabilities 67, 940   
Capital   
Shares Outstanding87, 000   
Add retained Earnings11, 060   
Total Capital 98, 060   
Total Liabilities and Capital167, 000   
Liquidity Ratios   
Current Ratio = Current Assets/Current Liabilities (Fridson, and Alvarez, 2011)   
= 126, 300 ÷ 67, 940   
= 1. 9   
Quick Ratio = (Current Assets – Inventory)/ Current Liabilities   
= (126, 300 – 81, 000)/67, 940   
= 0. 67   
The current ratio is 1. 9. That indicates that the company is in a position to furnish its short-term obligations. As for the quick ratio, it is 0. 67. That indicates that the value of liquid assets available to furnish current obligations is less than the current liabilities.   
Response to Problem 2   
Description   
Debit   
Credit   
Cash   
9, 000   
Investments (Short-Term)   
4, 000   
Accounts Receivable   
13, 000   
Inventory   
22, 000   
Notes Receivable (Long-term)   
1, 000   
Equipment   
48, 000   
Factory building   
90, 000   
Intangibles   
3, 000   
Accounts Payable   
15, 000   
Accrued Liabilities Payable   
2, 000   
Notes payable (short-term)   
7, 000   
Long-term notes payable   
46, 000   
Contributed Capital   
90, 000   
Retained Earnings   
30, 000   
Total   
190, 000   
190, 000   
Cash Account   
Description   
$   
Description   
$   
Balance b/d   
9, 000   
Short-term investments   
10, 000   
Capital   
12, 000   
Accounts receivable   
8, 000   
Notes Payable   
20, 000   
Equipment   
28, 000   
Equipment   
1, 000   
Intangibles   
4, 000   
Balance c/d   
53, 000   
Buildings   
45, 000   
Total   
95, 000   
Total   
95, 000   
Short Term Investments   
Description   
$   
Description   
$   
Balance b/d   
4, 000   
Cash   
10, 000   
Balance c/d   
14, 000   
Total   
14, 000   
Total   
14, 000   
Accounts Receivable   
Description   
$   
Description   
$   
Balance b/d   
13, 000   
Cash   
8, 000   
Balance c/d   
21, 000   
Total   
21, 000   
Total   
21, 000   
Inventory   
Description   
$   
Description   
$   
Balance b/d   
22, 000   
Balance c/d   
22, 000   
Total   
22, 000   
Total   
22, 000   
Long-Term Notes Receivable   
Description   
$   
Description   
$   
Balance b/d   
1, 000   
Balance c/d   
1, 000   
Total   
1, 000   
Total   
1, 000   
Equipment   
Description   
$   
Description   
$   
Balance b/d   
48, 000   
Cash   
1, 000   
Cash   
4, 000   
Short-term notes payable   
24, 000   
Balance c/d   
75, 000   
Total   
76, 000   
total   
76, 000   
Factory Building   
Description   
$   
Description   
$   
Intangibles   
90, 000   
Cash   
10, 000   
Long-term Notes payable   
35, 000   
Balance c/d   
135, 000   
Total   
135, 000   
Total   
135, 000   
Intangibles   
Description   
$   
Description   
$   
Balance b/d   
3, 000   
Cash   
4, 000   
Balance c/d   
Total   
7, 000   
Total   
7, 000   
Accounts Payable   
Description   
$   
Description   
$   
Balance c/d   
15, 000   
Balance b/d   
15, 000   
Total   
15, 000   
Total   
15, 000   
Accrued Liabilities Payable   
Description   
$   
Description   
$   
Balance c/d   
2, 000   
Balance b/d   
2, 000   
Total   
2, 000   
Total   
2, 000   
Notes Payable (Short-Term)   
Description   
$   
Description   
$   
Balance c/d   
7, 000   
Balance b/d   
7, 000   
Total   
7, 000   
Total   
7, 000   
Long-Term Notes Payable   
Description   
$   
Description   
$   
Balance b/d   
46, 000   
Balance c/d   
81, 000   
Factory Building   
35, 000   
Total   
81, 000   
Total   
81, 000   
Capital   
Description   
$   
Description   
$   
Balance b/d   
90, 000   
Balance c/d   
102, 000   
Cash   
12, 000   
Total   
102, 000   
Total   
102, 000   
Retained Earnings   
Description   
$   
Description   
$   
Balance c/d   
30, 000   
Balance b/d   
30, 000   
Total   
30, 000   
Total   
30, 000   
Item did does not require to be entered. That is because it does not involve any payment made or liability incurred.   
Balance Sheet   
As at 31/12/12   
Description   
$   
$   
Assets   
Current Assets   
Cash   
(93, 000)   
Accounts receivable   
21, 000   
Inventory   
22, 000   
(50, 000)   
Total Current Assets   
Non-Current Assets   
Notes Receivable (Long-Term)   
1, 000   
Equipment   
75, 000   
Factory Building   
135, 000   
Intangibles   
7, 000   
Total Non-Current Assets   
218, 000   
Total Assets   
168, 000   
Liabilities and Capital   
Current Liabilities   
Accounts Payable   
15, 000   
Accrued Liabilities Payable   
2, 000   
Notes Payable (Short Term)   
7, 000   
Total Current Liabilities   
24, 000   
Non-Current Liabilities   
Long-Term notes payable   
81, 000   
Total Non-Current Liabilities   
81, 000   
Total Liabilities   
105, 000   
Contributed Capital   
102, 000   
Add Retained Earnings   
30, 000   
Total Capital   
132, 000   
Total Liabilities and Capital   
237, 000   
Current ratio = current assets/ Current liabilities   
20122013   
Current Assets = 49, 000/24, 000(50, 000)/24, 000   
= 2. 04-2. 08   
The current ratio for 2013 is -2. 08. That indicates that the company is not in a position to meet its current obligations from its current assets. In 2012, the company had a better current ratio of 2. 04.   
Response to Problem 3   
1. Assets = 32, 666 Million   
Liabilities = 18, 809 Million   
Owner’s Equity = 13, 857 Million   
2. If the company was to go through liquidation, the shareholders would get the $13, 857 million as it is the difference between the assets and liabilities.   
3. Non-current liabilities for the year 2012 = 18, 809 – 7, 708 = $11, 101Million   
4. Current Ratio = 9, 784/7, 708 = 1. 3   
5. In 2012, the company had a cash outflow. The cash outflow was $903 million   
6. The cash flow from operating activities in 2012 is $3, 762 million. The amount is not the same as the operating income due to the depreciation, interest and taxes charged against the income in the income statement.   
References   
Fridson, M. S. and Alvarez, F. (2011). Financial Statement Analysis: A Practitioners Guide 4th Ed. Hoboken, New Jersey: Wiley.