

Acme company

Finance



Finance and Accounting of Response to Problem Acme Company Income

ment for the year Sales 126, 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 2012 31, 060

Less Dividends 20, 000

Retained Earnings 2012 11, 060

Acme Company

Balance Sheet

Current Assets

Cash 25, 000

Accounts Receivable 20, 300

Inventory 81, 000

Total Current Assets 126, 300

Non-Current Assets

Equipment 60, 700

Less Accumulated Depreciation 20, 000

Total Non-current Assets 40, 700

Total Assets 167, 000

Liabilities and Capital

Current Liabilities

Accounts Payable 66, 140

Accrued Salary 1, 800

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Total Current Liabilities 67, 940

Capital

Shares Outstanding 87, 000

Add retained Earnings 11, 060

Total Capital 98, 060

Total Liabilities and Capital 167, 000

Liquidity Ratios

Current Ratio = Current Assets/Current Liabilities (Fridson, and Alvarez, 2011)

$$= 126, 300 \div 67, 940$$

$$= 1. 9$$

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

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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

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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)

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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

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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

2012 2013

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.

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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.