

Case: balance sheet and personal financial information

[Business](#), [Accounting](#)



Case Study Companies must report or disclose in their financial statements information about all liabilities, including potential liabilities related to environmental clean-up. There are many situations in which you will be asked to provide personal financial information about your assets, liabilities, revenue, and expenses. Sometimes you will face difficult decisions regarding what to disclose and how to disclose it. Instructions Suppose that you are putting together a loan application to purchase a home. Based on your income and assets, you qualify for the mortgage loan, but just barely.

How would you address each of the following situations in reporting your financial position for the loan application? Provide responses for each of the following situations. a) You signed a guarantee for a bank loan that a friend took out for \$20, 000. If your friend doesn't pay, you will have to pay. Your friend had made all of the payments so far, and it appears he will be able to pay in the future. For this situation I would be personally liable for the \$20, 000 he borrowed. It is both a liability and an expense for both parties.

When applying for my loan I would have to make sure to disclose that all payments have been made and on time. Since my friend never failed to make any payments I shouldn't face too much resistance from getting the loan. In my opinion I would not share or disclose this information with the bank since this particular situation does not seem it will become a problem.

b) You were involved in an auto accident in which you were at fault. There is the possibility that you may have to pay as much as \$50, 000 as part of the settlement. The issue will not be resolved before the bank processes your mortgage request.

In this case you are have earned a liability and another expense. It would be highly unethical not to disclose such information with the bank. If for some reason you omit this information and the bank finds out about it later, you could be at fault since you lied to the institution that evaluated their risks without taking in consideration all of the factors involved. It would be wiser to settle your liability of 50, 000 dollars before acquiring new expenses. c) The company at which you work isn't doing very well, and it has recently laid off employees.

You are still employed, but it is quite possible that you will lose your job in the next few months. Since the probability of you losing your job is undisclosed I don't think it would be necessary to disclose any of this information with the bank. However if you receive a loan and lose your job you would still be held liable with this current expense. The only way to make a definite decision is to wait and see what happens with your company, or in the other if you want to take a risk and make the loan it would be unwise to disclose your current possibility of losing your job.