Jacqueline noted that although Upside-Down appears to meet the first criterion (liabilities less than 50 percent of assets before the loan is made) the balance sheet is unaudited. Without the opinion of a certified public accountant as to the fairness of the balance sheet and any other financial statements that she may need, it is necessary to inquire further into the completeness and accuracy of the balance sheet. In such cases, the bank's policy is to require the gathering of additional information by interviewing the loan applicant's accountant.

On January 5, 2001, Ms. Cash conducted a lengthy interview with Glib and Upside-Down's accountant, Frank Franklin, who was new at the job, having just graduated from Ucandoit College. Both Glib and Franklin were forthright in answering her questions. The interview explored the accounting principles employed by Upside-Down. Based on the interview, Cash was unsure whether certain assets and liabilities on Upside-Down's balance sheet were stated in accordance with generally accepted accounting principles. She informed Mr. Glib that she would consult with the bank's CPA, Becka Countess, to ascertain whether Upside-Down's balance sheet was reasonably accurate so that the bank could prudently apply its loan criteria to the accounting information contained therein.

Based upon her notes, Jacqueline prepared a memo listing items of concern to give to Becka. Excerpts of the memo follow.

Items I am concerned about:

1. Accounts Receivable - When I asked Franklin about any problem accounts in the list of receivables he informed me that no estimate of bad debts is ever made. He revealed that just yesterday Upside-Down received notice of a bankruptcy hearing of one of its customers whose balance is $4,000.
2. Insurance - I was told that the company did maintain fire and damage insurance on their fixed assets. In fact, Mr. Glib said his company had written a check for $3,000 in early December to renew its insurance policy for the six-month policy period covering February 1 through July 31, 2001, and it is included in insurance expense.
3. Advertising - The $50,000 amount is the amount paid in 2000 for advertising that appeared in summer issues of various ski magazines. The company expects sales to increase in the future as a result of this advertising.
4. Equipment - Franklin stated that all equipment was installed new when the company opened on February 1, 2000. He said that the company estimates that the equipment has a five-year useful life and that it could probably be sold after that for about $30,000.
5. Ski Supplies - The company started with about $3,000 of ski supplies when they first opened and have about $4,000 on hand at year-end. All purchases of supplies are recorded immediately as expenses.
6. Interest - Interest on the $100,000 bank loan payable for the three months ending December 31, 2000, was not recorded or paid. The annual interest rate is 12 percent. No principal payments are due until the entire loan is due on February 1, 2006.
7. Advance Payments - During 2000 customers made advance payments of $30,000 to Upside-Down for ski lesson packages. These amounts were recorded as revenues in 2000 when the ski lesson packages were sold. About $18,000 of the ski lessons have not yet been given and will be provided in the next year.
8. Equipment Lease - On December 30, 2000, Upside-Down entered into a non-cancelable three-year lease for computer equipment expected to have a useful life of three years. Neither the equipment nor the lease payable was recorded. The lease liability is $25,000 and is the cash equivalent price of the new equipment.

12,000