

We have not paid property taxes of \$5,500 for 2009 billed to us in late November. Our estimated income tax for 2008 is \$18,500. A refund claim for \$2,800 has been filed relative to the 2006 income tax return. The claim arose because of an error made on the 2006 return.

The operator of the ranch will receive a bonus of \$9,000 for 2008 operations. It will be paid when the entire grain crop has been sold.

As you may recall, we issued 14,000 shares of \$1 par stock upon incorporation. The ranch received \$290,000 as net proceeds from the stock issue. Dividends of \$30,000 were declared last month and will be paid on February 1, 2009.

The new year appears to hold great promise. Thanks for your help in preparing this statement.

Sincerely,

Frank K. Santiago  
President, St. Charles Ranch

**Instructions:** Based on this information, prepare a properly classified balance sheet as of December 31, 2008.

### Problem 3-43



#### Corrected Balance Sheet

The bookkeeper for Reliable Computers, Inc., reports the following balance sheet amounts as of June 30, 2008.

Current assets .....	\$233,400
Other assets .....	667,100
Current liabilities .....	146,820
Other liabilities .....	100,000
Owners' equity .....	653,680

A review of account balances reveals the following data.

(a) An analysis of current assets discloses the following:

Cash .....	\$ 47,500
Investment securities—trading .....	55,000
Accounts receivable .....	51,900
Inventories, including advertising supplies of \$2,000 .....	79,000
	<u>\$233,400</u>

(b) Other assets include the following:

Property, plant, and equipment:	
Depreciated book value (cost, \$670,000) .....	\$574,000
Deposit with a supplier for merchandise ordered for August delivery .....	5,200
Goodwill recorded on the books to cancel losses incurred by the company in prior years .....	87,900
	<u>\$667,100</u>

(c) Current liabilities include the following:

Payroll payable .....	\$ 8,250
Taxes payable .....	4,670
Rent payable .....	13,200
Accounts payable	
Total owed to suppliers on account .....	\$104,700
Less: 6-month note received from a supplier who purchased	
some used equipment on June 29, 2008 .....	2,000
Notes payable .....	18,000
	<u>\$146,820</u>

(d) Other liabilities include the following:

10% mortgage on property, plant, and equipment, payable in semiannual	
installments of \$10,000 through June 30, 2013 .....	\$100,000

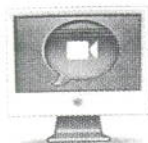
(e) Owners' equity includes the following:

Preferred stock: 20,000 shares outstanding (\$20 par value) .....	\$400,000
Common stock: 150,000 shares at \$1 stated value .....	150,000
Additional paid-in capital .....	<u>103,680</u>
	<u>\$653,680</u>

(f) Common shares were originally issued for \$394,000, but the losses of the company for the past years were charged against additional paid-in capital.

**Instructions:** Using the account balances and related data, prepare a corrected balance sheet showing individual asset, liability, and owners' equity balances properly classified.

**Problem 3-44**



DEMO PROBLEM

**Corrected Balance Sheet**

The following balance sheet is submitted to you for inspection and review.

<p><b>Appalachian Freight Company</b>  <b>Balance Sheet</b>  <b>December 31, 2008</b></p>	
<p><b>Assets</b></p>	
Cash .....	\$ 45,050
Accounts receivable .....	112,500
Inventories .....	204,000
Prepaid insurance .....	8,800
Property, plant, and equipment .....	<u>376,800</u>
Total assets .....	<u>\$747,150</u>
<p><b>Liabilities and Owners' Equity</b></p>	
Miscellaneous liabilities .....	\$ 3,600
Loan payable .....	76,200
Accounts payable .....	75,250
Capital stock .....	134,000
Paid-in capital .....	<u>458,100</u>
Total liabilities and owners' equity .....	<u>\$747,150</u>

In the course of the review, you find the following data:

- (a) The possibility of uncollectible accounts on accounts receivable has not been considered. It is estimated that uncollectible accounts will total \$4,800.
- (b) The amount of \$45,000 representing the cost of a large-scale newspaper advertising campaign completed in 2008 has been added to the inventories because it is believed that this campaign will benefit sales of 2009. It is also found that inventories include merchandise of \$16,250 received on December 31 that has not yet been recorded as a purchase.
- (c) The books show that property, plant, and equipment have a cost of \$556,800 with depreciation of \$180,000 recognized in prior years. However, these balances include fully depreciated equipment of \$85,000 that has been scrapped and is no longer on hand.
- (d) Miscellaneous liabilities of \$3,600 represent salaries payable of \$9,500, less noncurrent advances of \$5,900 made to company officials.
- (e) Loan payable represents a loan from the bank that is payable in regular quarterly installments of \$6,250.
- (f) Tax liabilities not shown are estimated at \$18,250.
- (g) Deferred income tax liability arising from temporary differences totals \$44,550. This liability was not included in the balance sheet.