Name ______________________ Date ______________________

CHAPTER 12 Business Organizations and Decision-Making

SECTION 12.1 REVIEW QUESTIONS (page 551)

1. *A partnership is a legal agreement where two or more people join together in a business and share in its profits or losses.*
2. *A partnership name includes two or more names or one name and a reference to other partners. Two examples are H. Gregg and Sons, and Lem and Kato Associates.*
3. *The main difference between the accounts of a partnership and a sole proprietorship is the number of Capital and Drawings accounts. A sole proprietorship has one Capital and one Drawings for the owner while a partnership has one Capital and one Drawings for each partner.*
4. *A partnership has as many Capital accounts as there are partners.*
5. *Three advantages of the partnership form of business organization are pooling financial resources, sharing skills and abilities, and paying a single income tax (rather than double income tax like with a corporation). Other advantages are a simpler organizational structure and fewer people to report to when compared to a corporation.*
6. *Three disadvantages of the partnership form of business organization are that it is terminated by the death or bankruptcy of a partner, it has unlimited liability, and it is subject to mutual agency.*
7. *The purpose of the partnership agreement is to outline the terms and conditions of the partnership in writing so all partners understand their role and responsibilities in the organization.*
8. *Answers will vary. The three most important items contained in a partnership agreement are the duties of the various partners, the amount of capital to be contributed by each partner, and how net income or net loss will be shared.*
9. *It is advisable for a partnership to have a formal agreement to ensure that partners get what they are entitled to if the partnership is dissolved. Partnerships without an agreement are subject to the Partnership Act, which is very general and does not consider the specifics of each partnership. For example, it divides profits and losses equally between partners even when one partner invested more money in the business.*
10. *The purpose of a shotgun clause is to ensure that partners are not pressured into paying a low price for their shares if one partner wants to terminate the partnership agreement. The terminating partner can offer to buy the other partners' shares. The other partners can decline but then they must purchase the terminating partner's shares at the offered price. This means a low offer will only hurt the partner who initially wanted to terminate the partnership.*

SECTION 12.1 REVIEW QUESTIONS (continued)

11. *There is more to the process of handling net income (or loss) and drawings for a partnership than for a sole proprietorship because partnerships have a Capital account and a Drawings account for each partner.*
12. *The three factors that affect the calculation of the distribution of net income or net loss to the partners are salaries, interest on the capital account balances, and the income- or loss-sharing ratio.*
13. *A partner who puts more time and effort into the business is rewarded with a salary as part of his share of the earnings.*
14. *The usual way to reward a partner who has a greater investment in the business is to pay her interest on the balance in her capital account.*
15. *Salaries and interest are deducted before apportioning net income or net loss.*
16. *To determine a partner's share of net income or net loss, apply the income- or loss-sharing ratio to the net income or loss.*
17. *The net income of a partnership is calculated by subtracting operating expenses from income, as is done for a sole proprietorship.*
18. *In the absence of a partnership agreement, net income or net loss is apportioned equally among the partners according to the Partnership Act of the province.*
19. *The statement of distribution of net income shows the apportionment of net income or net loss.*
20. *Salaries and interest are not recorded in the accounts but are used to calculate the distribution of net income or net loss.*
21. *The two new financial statements introduced in this chapter are the statement of distribution of net income and the statement of partners' capital.*
22. *The order in which to prepare the financial statements for a partnership is the income statement, the statement distribution of net income, the statement of partners' capital, and the balance sheet.*
23. *There is a statement of partners' capital because there is not enough room on the balance sheet to show the necessary calculations.*

SECTION 12.1 EXERCISES (page 552)

Exercise 1, p. 552

A. The partners of a business share in its *profits* and *losses*.

B. There is a separate *capital* account and *drawings* account for each partner.

C. You can usually tell if a business is a *partnership* from its name. You can also tell by examining its *ledger*.

D. The day-by-day accounting for a partnership is no different than for a *sole proprietorship*.

Name ______________________ Date ______________________

SECTION 12.1 EXERCISES (continued)

Exercise 1, p. 552 (continued)

E. Accounting for the partners' *capital accounts* is the principal new aspect of partnership accounting.

F. The capital accounts of a partnership must be maintained in agreement with the terms of the *partnership agreement*.

G. Persons may pool their *financial resources* when forming a partnership.

H. Persons may bring together *different resources* when forming a partnership.

I. A partnership is simple to *organize*.

J. A partnership is not subject to *double taxation*.

K. According to the law, a partnership is terminated by the *death*, *incapacity*, or *insolvency* of any partner.

L. There is no *limited liability* in regards to partnership debts.

M. *Mutual agency* means that the partners are legally bound by the actions of any one of them.

N. The partnership agreement should be worked out with the help of a *lawyer*.

O. The *partnership acts* of the various provinces come into play where there is no partnership agreement and a dispute arises.

Exercise 2, p. 553

A.

LI AND AHU

STATEMENT OF DISTRIBUTION OF NET INCOME

YEAR ENDED DECEMBER 31, 20–8

Net Income available for distribution			*$100 325 –*
	Li	*Ahu*	*Total*
Salaries allowed to partners	*–*	*–*	*–*
Interest on Capital accounts at 10%			
Li 10% of $116 240	*$11 624 –*	*$20 476 –*	*$ 32 100 –*
Ahu 10% of $204 760			
Balance of net income divided in the ratio of 2:3	*27 290 –*	*40 935 –*	*68 225 –*
Total distributed to partners	*$38 914 –*	*$61 411 –*	*$100 325 –*

Name ____________________ Date ____________________

SECTION 12.1 EXERCISES (continued)

Exercise 2, p. 553 (continued)

B.

LI AND AHU

STATEMENT OF PARTNERS' CAPITAL

YEAR ENDED DECEMBER 31, 20–8

	Li	Ahu	Total
Capital Balances January 1	$116 240 –	$204 760 –	$321 000 –
Add: Shares of Net Income for Year	38 914 –	61 411 –	100 325 –
	$155 154 –	$266 171 –	$421 325 –
Deduct: Drawings for Year	38 500 –	59 300 –	97 800 –
Capital Balances December 31	$116 654 –	$206 871 –	$323 525 –

Exercise 3, p. 553

A.

GENERAL ASSOCIATES

STATEMENT OF DISTRIBUTION OF NET INCOME

YEAR ENDED DECEMBER 31, 20–4

Net Income available for distribution				$18 000 –
	Hacio	Jaako	Saasto	Total
Salaries allowed to partners		$4 200 –	$4 000 –	$ 8 200 –
Interest on Capital accounts at 20%	$1 000 –	600 –	200 –	1 800 –
Hacio—$5 000 × 20%				
Jaako—$3 000 × 20%				
Saasta—$1 000 × 20%				
Balance of net income divided in				
the ratio of 2:1:1	4 000 –	2 000 –	2 000 –	8 000 –
Total distribution to partners	$5 000 –	$6 800 –	$6 200 –	$18 000 –

Name ________________ Date ________________

SECTION 12.1 EXERCISES (continued)
Exercise 3, p. 553 (continued)

B.

GENERAL ASSOCIATES
STATEMENT OF PARTNERS' CAPITAL
YEAR ENDED DECEMBER 31, 20–4

	Hacio	Jaako	Saasto	Total
Capital Balances January 1	$ 5 000 –	$3 000 –	$1 000 –	$ 9 000 –
Add: Shares of Net Income for Year	5 000 –	6 800 –	6 200 –	18 000 –
	$10 000 –	$9 800 –	$7 200 –	$27 000 –
Deduct: Drawings for Year	8 000 –	4 000 –	4 000 –	16 000 –
Capital Balances December 31	$ 2 000 –	$5 800 –	$3 200 –	$11 000 –

C.

GENERAL ASSOCIATES
BALANCE SHEET
DECEMBER 31, 20–4

ASSETS		
Bank		$ 500 –
Merchandise Inventory		9 000 –
Equipment		3 500 –
Total Assets		$13 000 –
LIABILITIES AND PARTNERS' EQUITY		
Accounts Payable		$ 2 000 –
Partners' Capital		
Hacio	$ 2 000 –	
Jaako	5 800 –	
Saasto	3 200 –	11 000 –
Total Liabilities and Partners' Equity		$13 000 –

Name ______________________ Date ______________________

SECTION 12.1 EXERCISES (continued)

Exercise 4, p. 554

Partnership 1

Give a salary to a partner or partners?	Y or N?	*N*
If yes, which one(s)?		–
Give interest on capital balances?	Y or N?	*N*
Divide balance of net income equally?	Y or N?	*Y*
If no, ratio to favour which partner?		–

Partnership 2

Give a salary to a partner or partners?	Y or N?	*Y*
If yes, which one(s)?		*B*
Give interest on capital balances?	Y or N?	*Y*
Divide balance of net income equally?	Y or N?	*Y*
If no, ratio to favour which partner?		–

Partnership 3

Give a salary to a partner or partners?	Y or N?	*Y*
If yes, which one(s)?		*C*
Give interest on capital balances?	Y or N?	*Y*
Divide balance of net income equally?	Y or N?	*N*
If no, ratio to favour which partner?		*C*

Exercise 5, p. 555

Partnership 1	A	B
Interest	–	–
Salaries	–	–
Balance of net income (ratio: *3:2*)	*36 000*	*24 000*
Total	*36 000*	*24 000*

Partnership 2	A	B
Interest	–	–
Salaries	–	–
Balance of net income (ratio: *1:6*)	*10 400*	*62 400*
Total	*10 400*	*62 400*

Partnership 3	A	B
Interest	–	–
Salaries	*10 000*	*25 000*
Balance of net income (ratio: *1:1*)	*27 500*	*27 500*
Total	*37 500*	*52 500*

Name ________________________ Date ________________________

SECTION 12.1 EXERCISES (continued)

Exercise 5, p. 555 (continued)

Partnership 4	**A**	**B**	**C**
Interest	*1 600*	*1 600*	*1 600*
Salaries	*20 000*	*–*	*–*
Balance of net income (ratio: *4:3:2*)	*48 800*	*36 600*	*24 400*
Total	*70 400*	*38 200*	*26 400*

Partnership 5	**A**	**B**	**C**
Interest	*1 000*	*2 000*	*8 000*
Salaries	*–*	*12 000*	*8 000*
Balance of net income (ratio: *5:3:1*)	*55 000*	*33 000*	*11 000*
Total	*56 000*	*47 200*	*27 000*

SECTION 12.2 REVIEW QUESTIONS (page 563)

1. *Corporations are the dominant form of business organization in our economy.*
2. *A corporation is considered a separate legal entity with certain rights and obligations of an individual.*
3. *You know a company is a corporation if it has the word Limited, Ltd., Incorporated, Inc., or Corp. as a part of the company name.*
4. *The original purpose of a corporation was to raise large amounts of capital for risky and costly ventures. A benefit to the owners is the ability to participate in the venture without risking a great deal of personal money.*
5. *The owner of a corporation receives a share certificate to show that she or he has ownership in the company.*
6. *The owners of a corporation are called shareholders or stockholders.*
7. *Limited liability means that shareholders can only lose the money they have invested in the company, not their own personal assets.*
8. *The Canada Business Corporations Act is the federal law governing the actions of corporations.*
9. *The board of directors is elected by a vote of shareholders at the annual meeting.*
10. *The board of directors make the major policy decisions of the company.*
11. *A director is a shareholder who is elected to serve a special role. An executive is a specialist hired to participate in running the company.*
12. *A public corporation is listed on a stock exchange and obtains its capital partly by the sale of shares to the general public. A private corporation is limited to 50 shareholders and cannot raise money publicly.*

Name ________________________ Date ________________________

SECTION 12.2 REVIEW QUESTIONS (continued)

13. *The major difference in the accounts for a corporation compared to a sole proprietor is that corporations do not have a Capital account or a Drawings account. Instead, there is a Capital Stock account—which may also be called Share Capital or Common Stock—and a Retained Earnings account.*
14. *The Capital Stock account represents capital acquired by the sale of shares.*
15. *The Retained Earnings account represents the claim on assets acquired through the earnings of the company.*
16. *The Retained Earnings account is increased by net income or net income after dividends, if any are issued.*
17. *The increase in Question 16 is recorded as a credit to the Retained Earnings account.*
18. *Net losses and the declaration of dividends cause the Retained Earnings account to decrease.*
19. *The decreases in Question 18 are recorded as debits to the Retained Earnings account.*
20. *The Capital Stock account has a credit balance.*
21. *The Retained Earnings account usually has a credit balance.*
22. *One large loss could cause a negative (debit) balance in the Retained Earnings account. More commonly, such a balance is caused by a series of losses.*
23. *A negative balance in the Retained Earnings account is called a deficit.*
24. *Dividends are distributed to shareholders based on the number of shares they hold. The amount of the dividend is stated as so much a share; for example, 50 cents per share for a three month period.*
25. *The board of directors decides if there is to be a dividend.*
26. *Two reasons why a dividend might not be declared are that the profits are needed for some other purpose, such as company expansion, or that the profits and cash position are too low for the company to afford paying the dividend.*
27. *The board of directors creates a dividend by making a formal declaration at one of its meetings.*
28. *To determine who will receive dividends, the board of directors states a date of record associated with the declaration of a dividend. Everyone who owns shares on the date of record will receive the dividend.*
29. *The payment date is a few weeks after the date of record because time is needed to calculate the dividends and then prepare and mail the dividend cheques.*
30. *If a declared dividend is not paid, the shareholders can sue the company for the money they are owed, since declared dividends are a legal liability to the company.*

Name ______________________ Date ______________________

SECTION 12.2 REVIEW QUESTIONS (continued)

31. *This is the accounting entry to record the declaration of a dividend.*

	Dr	Cr
Retained Earnings	*$$$$*	
Dividends Payable		*$$$$*

32. *This is the accounting entry to record the payment of a dividend.*

	Dr	Cr
Dividends Payable	*$$$$*	
Bank		*$$$$*

33. *Common stock is the basic class of stock of a corporation.*

34. *The usual advantage associated with preferred stock are that preferred shareholders are paid dividends before common shareholders. If the corporation goes bankrupt they also recover their assets before common shareholders.*

SECTION 12.2 EXERCISES (page 564)

Exercise 1, p. 564

A. *private corporation*
B. *common shareholders*
C. *corporation*
D. *limited liability*
E. *share certificate*
F. *board of directors*
G. *shareholder*
H. *dividend*
I. *date of declaration*
J. *date of record*
K. *dividend payable*

Exercise 2, p. 565

A.

Year	Profits (Losses)	Dividends Paid	Retained Earnings at Year-end
1	($ 45 000)	nil	*$ 45 000 deficit*
2	($ 20 000)	nil	*$ 65 000 deficit*
3	$ 25 000	nil	*$ 40 000 deficit*
4	$ 48 000	nil	*$ 8 000*
5	$110 000	$ 50 000	*$ 68 000*
6	$156 000	$100 000	*$ 124 000*
7	$227 000	$120 000	*$ 231 000*

B. *No dividends were paid in the first three years because the Retained Earnings account did not have a positive balance.*

C. *Yes, a dividend could have been paid in year 4.*

D. *A dividend was not paid in year 4 because the company was not consistently profitable.*

E. *All the retained earnings were not paid out in dividends because the corporation needs money in reserve to finance company operations and to avoid paying interest on loans.*

Name ______________________ Date ______________________

SECTION 12.2 EXERCISES (continued)

Exercise 3, p. 565

MANDRELL LTD.

BALANCE SHEET

DECEMBER 31, 20–3

ASSETS									
Bank						*$*	*5*	*0*	*0*	*25*
Accounts Receivable						*7*	*8*	*5*	*8*	*35*
Merchandise Inventory						*25*	*3*	*2*	*6*	*–*
Supplies							*4*	*5*	*0*	*–*
Land						*50*	*0*	*0*	*0*	*–*
Building						*275*	*0*	*0*	*0*	*–*
Equipment						*116*	*1*	*2*	*5*	*40*
Total Assets						*$475*	*2*	*6*	*0*	*–*
LIABILITIES										
Accounts Payable						*$ 23*	*1*	*2*	*5*	*60*
Bank Loan						*50*	*0*	*0*	*0*	*–*
Mortgage Payable						*212*	*3*	*2*	*5*	*40*
Total Liabilities						*$285*	*4*	*5*	*1*	*–*
SHAREHOLDERS' EQUITY										
Capital Stock—Common										
10 000 Shares, no par value	*$100*	*0*	*0*	*0*	*–*					
Retained Earnings	*89*	*8*	*0*	*9*	*–*					
Total Shareholders' Equity						*189*	*8*	*0*	*9*	*–*
Total Liabilities and Shareholders' Equity						*$475*	*2*	*6*	*0*	*–*

Exercise 4, p. 566

A. A dividend is distributed to the *shareholders* in proportion to the number of shares held.

B. Retained Earnings represents the company's net *accumulation* of earnings.

C. Only the *board of directors* has the power to declare a dividend.

D. When dividends are declared they are declared to *shareholders of record* on a certain date.

Name ______________________ Date ______________________

SECTION 12.2 EXERCISES (continued)

Exercise 4, p. 566 (continued)

E. A good system is necessary for keeping *shareholders' records* up to date and accurate.

F. *Dividends* are usually stated at so much a share.

G. Once declared, a dividend becomes a *legal liability* of the company.

H. The Retained Earnings account normally has a *credit* balance.

I. When a dividend is declared, it is set up in a *Dividends Payable* account.

J. When a dividend is declared, the *Retained Earnings* account is reduced.

Exercise 5, p. 566

Year	Number of Shares Sold	Cumulative Number of Shares Issued	Income for Year	Dividend Declared Dec. 15	Total Dividend for Year	Retained Earnings Dec. 31
1	10 000	*10 000*	$52 500	$1.00	*$ 10 000*	*$42 500*
2	12 000	*22 000*	$50 250	$1.50	*$ 33 000*	*$59 750*
3	12 500	*34 500*	$60 750	$1.60	*$ 55 200*	*$65 300*
4	15 000	*49 500*	$75 200	$1.75	*$ 86 625*	*$53 875*
5	20 000	*69 500*	$95 050	$1.85	*$128 575*	*$20 350*

Exercise 6, p. 566

A. *220 000 × $0.25 = $55 000*

The total dividend to be paid is $55 000.

B., C.

GENERAL JOURNAL PAGE

DATE		PARTICULARS	P.R.	DEBIT	CREDIT
20– *Mar.*	*1*	*Retained Earnings*		*55 000 –*	
		Dividends Payable			*55 000 –*
		Declaration of dividend			
	31	*Dividends Payable*		*55 000 –*	
		Bank			*55 000 –*
		Payment of dividend			

Name ______________________ Date ______________________

SECTION 12.2 EXERCISES (continued)

Exercise 7, p. 567

A. *The dividend on the $5 preferred shares is calculated by multiplying the 10 000 shares issued by $5.*

Bank	
① 20 000	300 000 ③
② 500 000	
220 000	

Other Assets	
④ 88 000	
88 000	

Land	
③ 100 000	
100 000	

Buildings	
③ 200 000	
200 000	

Dividend Payable	
	50 000 ⑤
	50 000

Common Stock	
	20 000 ①
	20 000

Preferred Stock	
	500 000 ②
	500 000

Retained Earnings	
⑤ 50 000	88 000 ④
	38 000

B.

REGUS CORPORATION

BALANCE SHEET

DECEMBER 31, 20–

ASSETS		
Bank		*$220 000 –*
Other Assets		*88 000 –*
Land		*100 000 –*
Building		*200 000 –*
Total Assets		*$608 000 –*
LIABILITIES		
Dividend Payable		*$ 50 000 –*
SHAREHOLDERS' EQUITY		
Capital Stock—Common		
10 000 Shares, no par value	*$ 20 000 –*	
Capital Stock–$5 Preferred		
10 000 Shares, no par value	*500 000 –*	
Retained Earnings	*38 000 –*	
Total Shareholders' Equity		*580 000 –*
Total Liabilities and Shareholders' Equity		*$608 000 –*

Name ______________________ Date ______________________

SECTION 12.3 REVIEW QUESTIONS (page 583)

1. *A comparative financial statement is a statement that shows the financial positions of successive business years side by side.*
2. *An Increase or Decrease column and a Percent Change column are added to comparative financial statements to make them more meaningful.*
3. *To calculate the percentage increase, subtract Year 1 net income from Year 2 net income. This gives the increase amount. Then divide this figure by Year 1 net income and multiply by 100 to get the percentage increase.*
   Percentage Increase: ($15 200 – $13 700) ÷ $13 700 × 100 = 10.9%
   The percentage increase for this company's net income is 10.9%.
4. *A common-sized financial statement is a statement that expresses all the figures as percentages of a chosen number.*
5. *Common-size statements help accountants communicate the financial numbers more clearly to their clients and make it easier to compare statements between companies, regardless of size.*
6. *The two aspects associated with accounting ratios and percentages are liquidity and profitability.*
7. *A liquidity ratio is used to decide how easily a company can pay its debts.*
8. *A profitability percentage is used to evaluate a company's ability to earn a profit.*
9. *Once ratios and percentages have been calculated, the figures should be compared with the results of other years, other companies, and other investment opportunities.*
10. *The collection period is calculated by dividing the accounts receivable figure by the average charge sales per day.*
11. *The collection period figure gives an indication of how long it usually takes for the company to collect an account receivable.*
12. *The inventory turnover is calculated by dividing the cost of goods sold figure by the average inventory figure.*
13. *The inventory turnover figure gives an indication of how quickly the company is able to sell its inventory.*
14. *The turnover figure for a fruit market would be very high. The merchandise is perishable and must be sold quickly so the inventory is sold and replaced many times in a year. The turnover figure for a gift store would be much lower because there is not a weekly demand for gifts like there is for food.*
15. *Public corporations are required to make their financial statements available to the public. Private corporations do not sell shares to the public so they can keep their financial statements private.*

Name ______________________ Date ______________________

SECTION 12.3 EXERCISES (page 584)

Exercise 1, p. 584

A., B.

PROFESSIONAL ENGINEERING AND CONSULTING
COMPARATIVE INCOME STATEMENT
YEAR ENDED JUNE 30, 20–2 AND 20–1

Revenues	*20–2*	*20–1*	Increase or Decrease	Percent Change
Consulting	$ 62 250	$ 60 402	*$ 1 848*	*+3.1%*
Construction	202 365	290 201	*(87 836)*	*–30.3%*
Designing	35 250	36 603	*(1 353)*	*–3.7%*
Total Revenue	$299 865	$387 206	*$ (87 341)*	*–22.6%*
Operating Expenses				
Advertising Expense	$ 3 520	$ 3 400	*$ 120*	*+3.5%*
Automobiles Expense	25 025	16 350	*8 675*	*+53.1%*
Bank Charges Expense	15 850	11 200	*4 650*	*+41.5%*
Building Expense	4 200	3 700	*500*	*+13.5%*
Equipment Maintenance Expense	1 525	1 750	*(225)*	*–12.9%*
Insurance Expense	5 014	3 000	*2 014*	*+67.1%*
Miscellaneous Expense	312	250	*62*	*+24.8%*
Property Taxes Expense	1 215	950	*265*	*+27.9%*
Telephone Expense	1 507	904	*603*	*+66.7%*
Utilities Expense	3 124	3 107	*17*	*+0.5%*
Wages Expense	102 301	78 201	*2 100*	*+30.8%*
Total Expenses	$163 593	$122 812	*$ 40 781*	*+33.2%*
Net Income	$136 272	$264 394	*$(128 122)*	*–48.5%*

C. *The four expense accounts that show the greatest dollar change for the year are Wages, Automobiles, Bank Charges, and Insurance.*

Name ____________________ Date ____________________

SECTION 12.3 EXERCISES (continued)

Exercise 2, p. 584

A.

NEON COMPANY
COMMON-SIZE BALANCE SHEET
DECEMBER 31, 20–

ASSETS		Percent
Bank	$ 3 000 –	1.6%
Accounts Receivable	10 000 –	5.5%
Plant and Equipment	132 000 –	72.1%
Automobiles	38 000 –	20.8%
Total Assets	$183 000 –	100.0%
LIABILITIES AND EQUITY		
Accounts Payable	$ 19 000 –	10.4%
Mortgage Payable	92 500 –	50.5%
Owner's Equity	71 500 –	39.1%
Total Liabilities and Equity	$183 000 –	100.0%

RADON COMPANY
COMMON-SIZE BALANCE SHEET
DECEMBER 31, 20–

ASSETS		Percent
Bank	$14 500 –	14.6%
Accounts Receivable	5 500 –	5.6%
Plant and Equipment	53 000 –	53.5%
Automobiles	26 000 –	26.3%
Total Assets	$99 000 –	100.0%
LIABILITIES AND EQUITY		
Accounts Payable	$ 2 200 –	2.2%
Mortgage Payable	18 000 –	18.2%
Owner's Equity	78 800 –	79.6%
Total Liabilities and Equity	$99 000 –	100.0%

Name ______________________ Date ______________________

SECTION 12.3 EXERCISES (continued)

Exercise 2, p. 584 (continued)

B. *The ability of Neon Company to pay its accounts payable is somewhat uncertain. Bank and Accounts Receivable are its cash and near-cash assets but these amount to only 7.1% of Total Assets (1.6% + 5.5%). Accounts Payable are 10.4% of Total Assets. Neon will need a large inflow of cash in the next month because it presently does not have enough funds to meet the $19 000 of Accounts Payable that will be due soon.*

In contrast, the Accounts Payable percentage (2.2%) for Radon Company is extremely small when compared to the combined percentage for Bank and Accounts Receivable (20.2%). Radon is in a good position to pay its Accounts Payable.

C. *Neon Company's overall debt is 60.9% of Total Assets; its equity is 39.1%. The majority of its long-term assets have been financed with a mortgage, which means there are interest costs to pay. Nevertheless, equity of nearly 40% is acceptable. Radon's debt is a tiny 20.4% of Total Assets. In fact, its entire mortgage is less than its cash and near-cash assets (Bank and Accounts Receivable) combined.*

Exercise 3, p. 585

Description	Ratio	Opinion
A. current ratio	*1.52:1*	*Fair*
B. quick ratio	*0.85:1*	*Fair*
C. collection period	*35.2 days*	*Fair to good*
D. inventory turnover	*8.37 times*	*Fair but need more data*
E. rate of return on net sales	*8.97%*	*Good*
F. rate of return on shareholders' equity	*15.35%*	*Good*
G. debt ratio	*35.13%*	*Good*
H. equity ratio	*64.87%*	*Good*
I. times interest earned	*3.73 times*	*Fair*

Name ______________________ Date ______________________

SECTION 12.3 EXERCISES (continued)
Exercise 4, p. 586

CALVINO COMPANY
INCOME STATEMENT
YEAR ENDED DECEMBER 31, 20–8

Revenue			
Sales		$	170 000
Cost of Goods Sold			
Opening Inventory	A.	*$*	*11 000*
Purchases			128 500
Goods Available for Sale	B.	*$*	*139 500*
Closing Inventory	C.		*10 500*
Cost of Goods Sold		$	129 000
Gross Profit	D.	$	*41 000*
Operating Expenses	E.	$	*19 750*
Net Income	F.	$	*21 250*

CALVINO COMPANY
BALANCE SHEET
DECEMBER 31, 20–8

ASSETS			
Current Assets			
Bank		$	3 700
Accounts Receivable	G.		*17 000*
Merchandise Inventory			10 500
Total Current Assets	H.	$	*31 200*
Plant and Equipment			
Land		$	35 000
Buildings and Equipment	I.		*93 800*
Total Plant and Equipment	J.	$	*128 800*
Total Assets	K.	$	*160 000*
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Bank Loan		$	15 000
Accounts Payable	L.		*9 000*
Total Current Liabilities	M.	$	*24 000*
Shareholders' Equity			
Share Capital		$	30 000
Retained Earnings			106 000
Total Shareholders' Equity	N.	$	*136 000*
Total Liabilities and Shareholders' Equity	O.	$	*160 000*

Name ______________________ Date ______________________

SECTION 12.3 EXERCISES (continued)
Exercise 5, p. 587

A. *Students should input the data from Figure 12.19 on student textbook page 582 for the first sheet. The second sheet should use the formulas shown below (cell references may vary) and should match Figure 12.20 on student textbook page 583.*

Note: The cell references in the image below look complex because they point to cells in the Statement Data sheet. They are simple to create, however, by pointing and clicking with the mouse.

OkadaFormulas.xls

	B	C	D	E
2	='Statement Data'!B2			
3	Key Ratios and Statistics	20-3	20-2	% Change
4	Current Ratio	='Statement Data'!C4/'Statement Data'!C10	='Statement Data'!D4/'Statement Data'!D10	=(C4-D4)/D4
5	Quick Ratio	=('Statement Data'!C4-'Statement Data'!C7-'Statement Data'!C8)/'Statement Data'!C10	=('Statement Data'!D4-'Statement Data'!D7-'Statement Data'!D8)/'Statement Data'!D10	=(C5-D5)/D5
6	Collection Period	='Statement Data'!C5/('Statement Data'!C17/365)	='Statement Data'!D5/('Statement Data'!D17/365)	=(C6-D6)/D6
7	Inventory Turnover	='Statement Data'!C18/(('Statement Data'!C6+'Statement Data'!C7)/2)	='Statement Data'!D18/(('Statement Data'!D6+'Statement Data'!D7)/2)	=(C7-D7)/D7
8	Debt Ratio	='Statement Data'!C11/'Statement Data'!C9	='Statement Data'!D11/'Statement Data'!D9	=(C8-D8)/D8
9	Equity Ratio	='Statement Data'!C13/'Statement Data'!C9	='Statement Data'!D13/'Statement Data'!D9	=(C9-D9)/D9
10	Times Interest Earned Ratio	='Statement Data'!C20/'Statement Data'!C19	='Statement Data'!D20/'Statement Data'!D19	=(C10-D10)/D10
11	Rate Of Return On Net Sales	='Statement Data'!C20/'Statement Data'!C16	='Statement Data'!D20/'Statement Data'!D16	=(C11-D11)/D11
12	Rate Of Return On Equity	='Statement Data'!C20/(('Statement Data'!C13+'Statement Data'!C12)/2)	='Statement Data'!D20/(('Statement Data'!D13+'Statement Data'!D12)/2)	=(C12-D12)/D12
13	Earnings Per Share	='Statement Data'!C20/'Statement Data'!C14	='Statement Data'!D20/'Statement Data'!D14	=(C13-D13)/D13
14	Price/Earnings Ratio	='Statement Data'!C15/C13	='Statement Data'!D15/D13	=(C14-D14)/D14

Statement Data | Analysis

Name ______________________________ Date ______________________________

SECTION 12.3 EXERCISES (continued)

Exercise 5, p. 587 (continued)

B. *Comparative balance sheets should match Figure 12.16 on student textbook page 570. The formulas for the comparative balance sheet appear below.*

OkadaAnswersFormulas.xls

	B	C	E	G	I
1		Okada Wireless Ltd.			
2		Comparative Balance Sheet			
3		December 31, 20-3 and 20-2			
4					
5				*Increase or*	*Percent*
6	*ASSETS*	*20-3*	*20-2*	*Decrease*	*Change*
7	*Current Assets*				
8	Bank	13260	8600	=C8-E8	=G8/E8
9	Accounts Receivable	20320	15250	=C9-E9	=G9/E9
10	Merchandise Inventory	46900	25600	=C10-E10	=G10/E10
11	Prepaid Expenses	1800	2400	=C11-E11	=G11/E11
12	*Total Current Assets*	**=SUM(C8:C11)**	**=SUM(E8:E11)**	**=C12-E12**	=G12/E12
13					
14	*Long-Term Assets*				
15	Land	220000	220000	=C15-E15	=G15/E15
16	Building	147600	=C16+8400	=C16-E16	=G16/E16
17	Equipment	103500	108500	=C17-E17	=G17/E17
18	*Total Long-Term Assets*	**=SUM(C15:C17)**	**=SUM(E15:E17)**	**=C18-E18**	=G18/E18
19					
20	Total Assets	**=C12+C18**	**=E12+E18**	**=G12+G18**	=G20/E20
21					
22	LIABILITIES				
23	*Current Liabilities*				
24	Accounts Payable	=39350-3610	21640	=C24-E24	=G24/E24
25	Bank Loan	25000	15000	=C25-E25	=G25/E25
26	*Total Current Liabilities*	**=C25+C24**	**=E25+E24**	**=C26-E26**	=G26/E26
27					
28	*Long-term Liabilities*				
29	Mortgage Payable	=245000+380	257000	=C29-E29	=G29/E29
30	*Total Liabilities*	**=C26+C29**	**=E26+E29**	**=G26+G29**	=G30/E30
31					
32	SHAREHOLDERS' EQUITY				
33	Common Stock	100000	100000	=C33-E33	=G33/E33
34	Retained Earnings	=E34+4550	=E20-E30-E33	=C34-E34	=G34/E34
35	Total Shareholders' Equity	**=C33+C34**	**=E33+E34**	**=C35-E35**	=G35/E35
36					
37	Total Liabilities and Equity	**=C30+C35**	**=E30+E35**	**=G30+G35**	=G37/E37

Statement Data | Analysis | Comparative Balance | Comparative Income | Common Balance | Common Income

Name ______________________________ Date ______________________________

SECTION 12.3 EXERCISES (continued)

Exercise 5, p. 587 (continued)

B. (continued) *Comparative income statements should match Figure 12.17 on student textbook page 571. The formulas for the comparative income statement appear below.*

OkadaAnswersFormulas.xls

	A	B	C	D	E	F	G	H	I
1			Okada Wireless Ltd.						
2			Comparative Income Statement						
3			December 31, 20-3 and 20-2						
4									
5							*Increase or*		*Percent*
6			*20-3*		*20-2*		*Decrease*		*Change*
7		*Revenue*							
8		Net Sales	**338520**		**325600**		**=C8-E8**		=G8/E8
9									
10		*Cost of Goods Sold*							
11		Inventory, January 1	25600		22240		=C11-E11		=G11/E11
12		Net Purchases	201500		175480		=C12-E12		=G12/E12
13		Goods Available for Sale	=C11+C12		=E11+E12		=C13-E13		=G13/E13
14		Less Inventory, December 31	46900		25600		=C14-E14		=G14/E14
15		Cost of Goods Sold	**=C13-C14**		**=E13-E14**		**=C15-E15**		=G15/E15
16									
17		*Gross Profit*	**=C8-C15**		**=E8-E15**		**=C17-E17**		=G17/E17
18									
19		*Operating Expenses*							
20		Advertising Expense	16090		21640		=C20-E20		=G20/E20
21		Car Expense	17460		19800		=C21-E21		=G21/E21
22		Depreciation Expense	13400		13400		=C22-E22		=G22/E22
23		Insurance Expense	5100		4800		=C23-E23		=G23/E23
24		Interest Expense	12780		13600		=C24-E24		=G24/E24
25		Miscellaneous Expense	600		910		=C25-E25		=G25/E25
26		Utilities Expense	5200		4750		=C26-E26		=G26/E26
27		Supplies Expense	3400		2880		=C27-E27		=G27/E27
28		Telephone Expense	1500		1405		=C28-E28		=G28/E28
29		Wages Expense	42660		36074		=C29-E29		=G29/E29
30		*Total Operating Expenses*	**=SUM(C20:C29)**		**=SUM(E20:E29)**		**=C30-E30**		=G30/E30
31		*Net Income before taxes*	=C17-C30		=E17-E30		=C31-E31		=G31/E31
32		Taxes	=C31*0.23		=E31*0.23		=C32-E32		=G32/E32
33		*Net Income after taxes*	**=C31-C32**		**=E31-E32**		**=C33-E33**		=G33/E33
34									

Statement Data | Analysis | Comparative Balance | Comparative Income | Common Balance | Common Income

Name ____________________ Date ____________________

SECTION 12.3 EXERCISES (continued)

Exercise 5, p. 587 (continued)

B. (continued) *The common-sized income statement should match Figure 12.18 on student textbook page 572. Partial formulas for the common-size income statement appear to the right of Column E below.*

OkadaAnswersFormulas.xls

Okada Wireless Ltd.
Common-Size Income Statement
Year Ended December 31, 20-3

	B	C	E	Formulas in Column E
5		*20-3*	*Percent*	*Formulas in Column E*
6	*Revenue*			
7	Net Sales	**$ 338 520**	**100.0%**	**=C7/$C$7**
8				
9	*Cost of Goods Sold*			
10	Inventory, January 1	$ 25 600	7.6%	=C10/$C$7
11	Net Purchases	201 500	59.5%	=C11/$C$7
12	Goods Available for Sale	$ 227 100	67.1%	=C12/$C$7
13	Less Inventory, December 31	46,900	13.9%	=C13/$C$7
14	Cost of Goods Sold	**$ 180 200**	**53.2%**	**=C14/$C$7**
15				
16	*Gross Profit*	**$ 158 320**	**46.8%**	**=C16/$C$7**
17				
18	*Operating Expenses*			
19	Advertising Expense	$ 16,090	4.8%	=C19/$C$7
20	Car Expense	17 460	5.2%	=C20/$C$7
21	Depreciation Expense	13 400	4.0%	=C21/$C$7
22	Insurance Expense	5,100	1.5%	=C22/$C$7
23	Interest Expense	12 780	3.8%	=C23/$C$7
24	Miscellaneous Expense	600	0.2%	=C24/$C$7
25	Utilities Expense	5,200	1.5%	=C25/$C$7
26	Supplies Expense	3,400	1.0%	=C26/$C$7
27	Telephone Expense	1,500	0.4%	=C27/$C$7
28	Wages Expense	42,660	12.6%	=C28/$C$7
29	*Total Operating Expenses*	**$ 118 190**	**34.9%**	**=C29/$C$7**
30	*Net Income before taxes*	$ 40 130	11.9%	=C30/$C$7
31	Taxes	9 230	2.7%	=C31/$C$7
32	*Net Income after taxes*	**$ 30 900**	**9.1%**	**=C32/$C$7**
33				

Statement Data | Analysis | Comparative Balance | Comparative Income | Common Balance | Common Income

Name ______________________ Date ______________________

SECTION 12.3 EXERCISES (continued)

Exercise 5, p. 587 (continued)

B. (continued) *Partial formulas for the common-size balance sheet appear to the right of Column E below.*

OkadaAnswersFormulas.xls

	A	B	C	D	E	Formulas in Column E
1		Okada Wireless Ltd.				
2		Common Size Balance Sheet				
3		December 31, 20-3				
4						
5		*ASSETS*	*20-3*		*Percent*	
6		*Current Assets*				
7		Bank	$ 13 260		2.4%	=C7/$C$19
8		Accounts Receivable	20 320		3.7%	=C8/$C$19
9		Merchandise Inventory	46 900		8.5%	=C9/$C$19
10		Prepaid Expenses	1 800		0.3%	=C10/$C$19
11		*Total Current Assets*	**$ 82 280**		**14.9%**	**=C11/$C$19**
12						
13		*Long-Term Assets*				
14		Land	$ 220 000		39.8%	=C14/$C$19
15		Building	147 600		26.7%	=C15/$C$19
16		Equipment	103 500		18.7%	=C16/$C$19
17		*Total Long-Term Assets*	**$ 471 100**		85.1%	=C17/$C$19
18						
19		Total Assets	**$ 553 380**		**100.0%**	**=C19/$C$19**
20						
21		LIABILITIES				
22		*Current Liabilities*				
23		Accounts Payable	$ 35 740		6.5%	=C23/$C$19
24		Bank Loan	25 000		4.5%	=C24/$C$19
25		*Total Current Liabilities*	**$ 60 740**		**11.0%**	**=C25/$C$19**
26						
27		*Long-term Liabilities*				
28		Mortgage Payable	$ 245 380		44.3%	=C28/$C$19
29		*Total Liabilities*	**$ 306 120**		**55.3%**	**=C29/$C$19**
30						
31		SHAREHOLDERS' EQUITY				
32		Common Stock	$ 100 000		18.1%	=C32/$C$19
33		Retained Earnings	147 260		26.6%	=C33/$C$19
34		Total Shareholders' Equity	**$ 247 260**		**44.7%**	**=C34/$C$19**
35						
36		Total Liabilities and Equity	**$ 553 380**		**100.0%**	**=C36/$C$19**

Statement Data | Analysis | Comparative Balance | Comparative Income | Common Balance | Common Income

SECTION 12.3 EXERCISES (continued)

Exercise 5, p. 587 (continued)

C. *Letters will vary. The reference in the textbook to the large growth in inventory without a corresponding increase in sales is a major concern. This could be the result of poor inventory management or it could signal a downturn in the demand for the company's products. The company reduced its operating expenses slightly in the past year, which produced more net income. However, the major reduction in advertising could have adverse long-term effects.*

The ratio analysis in the textbook reveals weak liquidity and reinforces the concern about the high inventory levels. The fair current ratio, weak quick ratio, and declining Inventory Turnover are important trouble spots.

There are several other items of interest. The percentage increase in Cost of Good Sold (4.7%) was greater than the percentage increase in Sales (4.0%). Gross Profit lagged behind as a result (3.2%). It seems that Okada Wireless Ltd. is unable to pass along increases in inventory costs to its retail customers. Additionally, Wages Expense is only 12.6% of Sales. Normally, low expenses are a positive feature but perhaps the company needs to hire more people, especially salespeople, to help move its inventory.

The balance sheet proves that the company is a legitimate company. It owns the land and buildings used for operations. Also, Retained Earnings amounts to 26.6% of Total Assets, demonstrating that the company has been able to generate profits for a good length of time. For future growth, perhaps the company should consider selling the land and buildings and look at renting facilities. The cash generated by the sale could then be used to aggressively combat the downward financial trend. Advertising levels could be restored and more staff could be hired in the hope of making a significant impact in the marketplace.

Name ______________________________ Date ______________________________

SECTION 12.4 REVIEW EXERCISES (page 590)

A. to C.

MorrisGraves.xls

Morris's Projections

	Year 1	Year 2	Year 3	Year 4	Year 5
	195 000	210 000	245 000	275 000	310 000

Projected Distribution of Net Income

	Year 1	Year 2	Year 3	Year 4	Year 5
Morris	84 750	86 250	101 125	107 000	113 250
Graves	110 250	123 750	143 875	168 000	196 750
Total	195 000	210 000	245 000	275 000	310 000

Distribution | Projections

Graphs should resemble the bar charts on textbook page 592. Students should try to make the bars more prominent than the title. They can experiment with combinations of clicking, double-clicking, or CRTL-clicking (Command key on Macs) to select and vary the size and colour of the chart's components.

D. *Letters will vary. Morris might be displeased with the bonus arrangement. Even though Graves is more active on a daily basis, Morris's original capital investment was significant at $100 000. Grave's contributed only $40 000 in comparison. Since Morris invested a good deal of cash, he should expect reasonable participation in the growth of the profits. The bar chart shows that Morris's share of net income will increase moderately but Graves's gains will grow substantially. Morris should ask Graves to modify her proposal so he gets a larger share of the profits to reward his contribution of capital.*

E. *Letters will vary. Graves must be rewarded for her active involvement in the business. The potential for large gains will boost her motivation and productivity. Morris benefits as a result. His share of the net income remains substantial and its growth over the five-year period is projected to be 33.6% ($113 250 – $84 750), which is more than fair when compared to other investment opportunities. Graves should not change her proposal.*

Name ______________________ Date ______________________

SECTION 12.5 REVIEW QUESTIONS (page 601)

1. *A budget is a financial plan that involves a forecast of financial figures.*

2. *The type of budget that is most familiar is a budgeted income statement, which is a forecast of revenues and expenses.*

3. *In a large organization, a variety of departmental budgets are the components of the master budget.*

4. *The four stages of budgeting are as follows. Investigate: Gather financial data. Forecast: Use the financial data to predict future account outcomes. Feedback: Establish an information system to provide feedback on the predictions made. Follow-up: Feedback is reviewed and used by management to make business decisions and adjust previous forecasts.*

5. *A system of feedback for budgeting helps managers determine if the budgetary predictions are accurate.*

6. *Business managers need more detailed information than just profit projections for the income statement. For example, they must know if there will be enough cash to meet payroll obligations and if credit is available to finance new equipment purchases. Since this information involves asset and liability accounts, it is clear that the budgeting process must be include balance sheet accounts as well as income statement accounts.*

7. *Budgeted financial statements and a spreadsheet model restored Karissa's hope in her business venture because they allowed her to change variables while seeing the effects of these changes overall. After the final changes, Karissa's spreadsheet model predicted a healthier income of $8230 and a sufficiently lower decrease than previously seen to her Cash account.*

Name ______________________________ Date ______________________________

SECTION 12.5 EXERCISES (page 602)

A. *The data sheet should match Figure 12.25 on textbook page 594. Formulas for the data sheet appear below.*

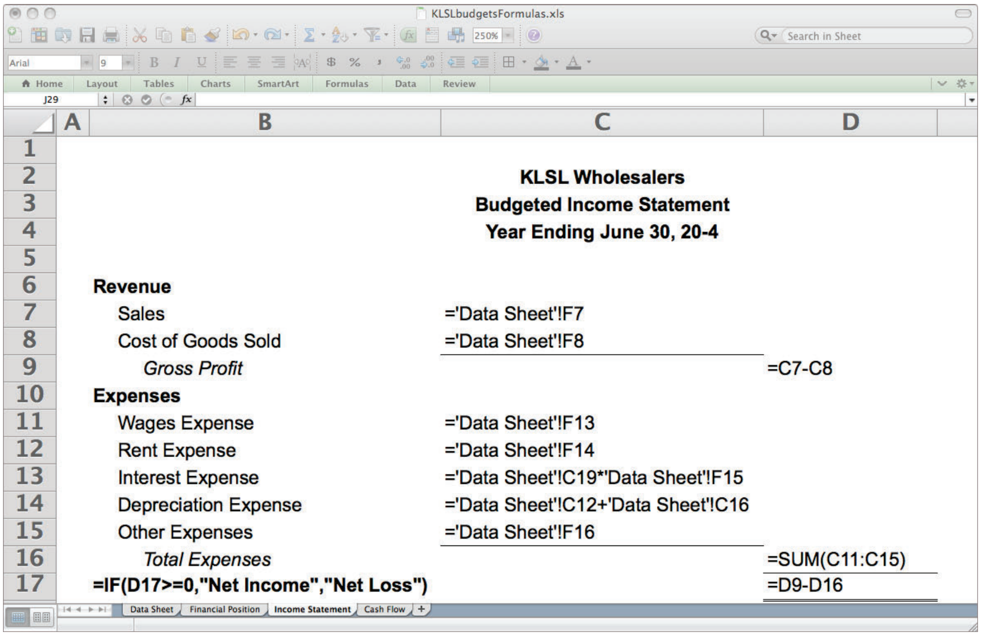
KLSLbudgetsFormulas.xls

	A	B	C	D	E	F
1			KLSL Wholesalers			
2			Data and Rough Calculations			
3		**Current Asset Data**			**Sales and Cost of Goods Sold**	
4	1	Opening Cash	22000	14	Projected unit sales	100000
5	2	Year-end A/R (% of credit sales)	0.1	15	Projected Price per unit:	1.1
6	3	% of Inventory in excess of Sales	0.2	16	Cost per unit	0.45
7				17	Sales	=F4*F5
8		**Long-Term Asset Data**		18	COGS	=F4*F6
9	4	**Computer Equipment**	5000	19	% Sales for Cash	0.15
10	5	Salvage Value	400	20	% Sales for Credit	=1-F9
11	6	Estimated Useful Life (years)	5			
12	7	Annual Depreciation	=(C9-C10)/C11		**Other Cash Expenses**	
13	8	**Office Furniture**	3000	21	Wages	30000
14	9	Salvage Value	500	22	Rent	24000
15	10	Estimated Useful Life (years)	5	23	Bank Loan Interest Rate	0.08
16	11	Annual Depreciation	=(C13-C14)/C15	24	Other Expenses	6000
17						
18		**Current Liability Data**				
19	12	Bank Loan	20000			
20	13	Year-end A/P (% of purchases)	0.1			

Data Sheet | Financial Position | Income Statement | Cash Flow

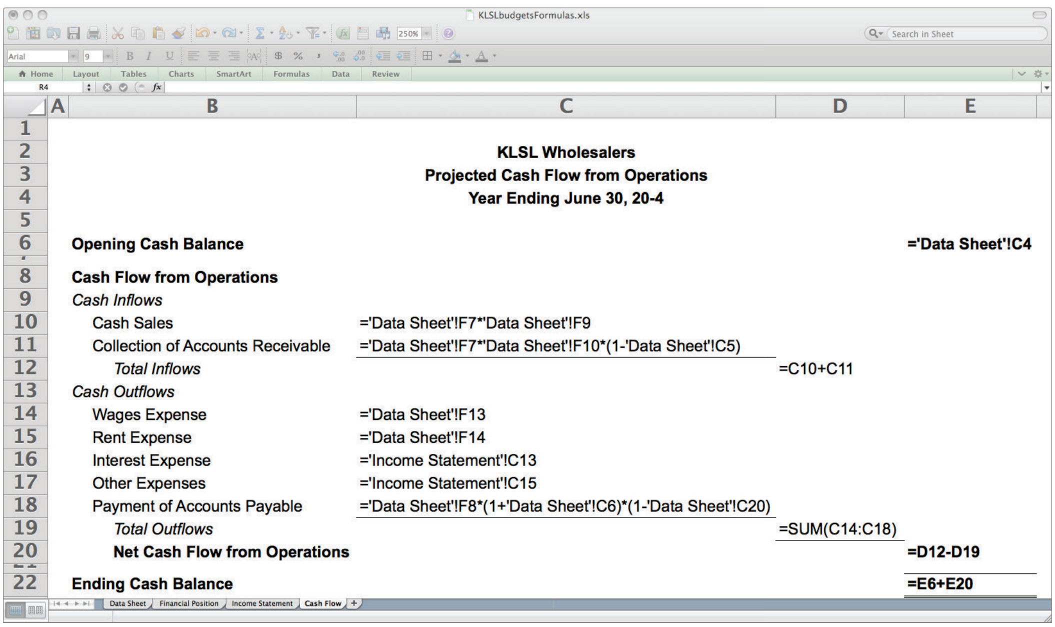
SECTION 12.5 EXERCISES (continued)

B. *The budgeted income statement should match Figure 12.27 on textbook page 597. Formulas for the budgeted income statement appear below.*



	A	B	C	D
1				
2			**KLSL Wholesalers**	
3			**Budgeted Income Statement**	
4			**Year Ending June 30, 20-4**	
5				
6		**Revenue**		
7		Sales	='Data Sheet'!F7	
8		Cost of Goods Sold	='Data Sheet'!F8	
9		*Gross Profit*		=C7-C8
10		**Expenses**		
11		Wages Expense	='Data Sheet'!F13	
12		Rent Expense	='Data Sheet'!F14	
13		Interest Expense	='Data Sheet'!C19*'Data Sheet'!F15	
14		Depreciation Expense	='Data Sheet'!C12+'Data Sheet'!C16	
15		Other Expenses	='Data Sheet'!F16	
16		*Total Expenses*		=SUM(C11:C15)
17		**=IF(D17>=0,"Net Income","Net Loss")**		=D9-D16

C. *Budgeted cash flow from operations should match Figure 12.28 on textbook page 598. Formulas for the budgeted cash flow from operations appear below.*



	A	B	C	D	E
1					
2			**KLSL Wholesalers**		
3			**Projected Cash Flow from Operations**		
4			**Year Ending June 30, 20-4**		
5					
6		**Opening Cash Balance**			**='Data Sheet'!C4**
8		**Cash Flow from Operations**			
9		*Cash Inflows*			
10		Cash Sales	='Data Sheet'!F7*'Data Sheet'!F9		
11		Collection of Accounts Receivable	='Data Sheet'!F7*'Data Sheet'!F10*(1-'Data Sheet'!C5)		
12		*Total Inflows*		=C10+C11	
13		*Cash Outflows*			
14		Wages Expense	='Data Sheet'!F13		
15		Rent Expense	='Data Sheet'!F14		
16		Interest Expense	='Income Statement'!C13		
17		Other Expenses	='Income Statement'!C15		
18		Payment of Accounts Payable	='Data Sheet'!F8*(1+'Data Sheet'!C6)*(1-'Data Sheet'!C20)		
19		*Total Outflows*		=SUM(C14:C18)	
20		**Net Cash Flow from Operations**			**=D12-D19**
22		**Ending Cash Balance**			**=E6+E20**

Name ______________________________ Date ______________________________

SECTION 12.5 EXERCISES (continued)

D. *Statements of financial position should match Figure 12.29 on textbook page 599. Formulas for the statements of financial position appear below.*

KLSLbudgetsFormulas.xls

	A	B	C	D	E
1					
2			**KLSL Wholesalers**		
3			**Statements of Financial Position**		
4					
5			Projected		Opening
6			June 30, 20-4		July 1, 20-3
7		**Assets**			
8		Cash	='Cash Flow'!E22		='Data Sheet'!C4
9		Accounts Receivable	='Data Sheet'!F7*'Data Sheet'!F10*'Data Sheet'!C5		0
10		Merchandise Inventory	='Data Sheet'!F8*'Data Sheet'!C6		0
11		Computer Equipment	='Data Sheet'!C9-'Data Sheet'!C12		='Data Sheet'!C9
12		Office Furniture	='Data Sheet'!C13-'Data Sheet'!C16		='Data Sheet'!C13
13		*Total Assets*	**=SUM(C8:C12)**		**=SUM(E8:E12)**
14					
15		**Liabilities**			
16		Bank Loan	='Data Sheet'!C19		='Data Sheet'!C19
17		Accounts Payable	='Data Sheet'!F8*(1+'Data Sheet'!C6)*'Data Sheet'!C20		
18		*Total Liabilities*	**=SUM(C16:C17)**		**=SUM(E16:E17)**
19					
20		**Owner's Equity**			
21		Beginning Capital	=E21		=E13-E16
22		=IF('Income Statement'!D17>0,"Net Income","Net Loss")	='Income Statement'!D17		0
23		Ending Capital	**=C21+C22**		**=E21+E22**
24					
25		*Total Liabilities and Equity*	**=C18+C23**		**=E18+E21**

Data Sheet | Financial Position | Income Statement | Cash Flow

SECTION 12.5 EXERCISES (continued)

E., F. *With current versions of Microsoft Excel, you can open a new window of a file by choosing Window, New Window from the top-line menu. Often, when a new window opens, gridlines appear, which can be distracting when working with formatted models. To turn off the gridlines, click the Layout tab and uncheck the Gridlines box.*

SECTION 12.5 SPREADSHEET EXTENSIONS (page 603)

A. *Spreadsheets will vary. To achieve the goal of a net income of $20 000, Karissa might try lowering the price per unit while increasing her advertising amount. For example, if the price per unit is lowered to $1.00 (cell F5) and $12 000 more is spent on advertising (cell F16, Other Expenses, which is now $18 000), projected unit sales can be reasonably set at 175 000 (cell F4). This changes the projected Net Income to $21 230.*

B. *Spreadsheets will vary. To achieve a net income of $30 000, Karissa could take the opposite approach from the strategy outlined in Part A. She could dramatically increase the unit price, drop the unit sales, and cut expenses. She might do this if she felt that the demand for lip gloss was not sensitive to price changes.*

For example, if Karissa increased the price per unit to $1.50 and lowered the projected unit sales to 85 000, the projected net income would be $26 230—still below target. To reach her goal, Karissa could plan to cut the wages because the lower volume of sales would require less part-time help. If wages are cut to $25 000 in cell F14, the net income would be $31 230.

C. *With a unit price of $1.15 and a volume of 50 000 units, Karissa's business would be in serious trouble. The Net Loss would be $28 020, the Cash Flow from Operations would be negative $32 288, and the ending cash would be a credit balance of negative $11 288, which would force the bank loan and interest costs to increase.*

D. *Spreadsheets will vary. With the volume decreasing by half to 50 000 units, Karissa will have to look at decreasing other major expenses by 50%. This action, combined with tight inventory management, will help keep the business afloat until market conditions improve.*

Specifically, the 50% cut in volume will mean the business will have to cut its wages by 50% (down to $15 000 for part-time help). Also, careful inventory management will be implemented; inventory on hand will be only 10% above the sales level (cell C6). With less inventory to deal with, Karissa will have to look for better office and storage venues to cut Rent Expense by half to $12 000. The Other Expenses will be reduced by $1000 to $5000.

With the four changes above entered on the Data Sheet, Karissa's projected Net Loss will be $20 instead of $28 020. The Cash Flow from Operations will still be negative $3263. While this is not sustainable in the long term, Karissa's opening cash position is strong enough to hold until sales increase. The bank balance at the end of the year will be a healthy $18 738.

Name ______________________ Date ______________________

SECTION 12.5 COMMUNICATE IT (page 603)

Attach your report to the Workbook.

Reports will vary. Reports should include financial statements and relevant graphs generated from the spreadsheet data. They could also include ratio and percentage analysis. The best reports will effectively communicate the changes and the rationale for the changes that the students made in Part D of the Section 12.5 Spreadsheet Extensions.

CHAPTER 12 REVIEW EXERCISES (page 605)

Using Your Knowledge

Exercise 1, p. 605

Shareholders' Equity		
Common Stock, no par value	*$ 54 260 –*	
authorized and issued, 5000 shares		
Preferred Stock, 6% cumulative, par value $25		
authorized and issued, 20 000 shares	*500 000 –*	
Retained Earnings	*157 206 –*	
Total Shareholders' Equity		*$711 466 –*

Exercise 2, p. 606

A. *The sale of common shares raised $250 000 in equity.*

B. *Company profits generated $172 490 in equity.*

C. *If all shares were sold for the same price, the sale price for one share was $10.*

D. *The company is not in a good position to pay out dividends, even though it has far more equity than debt. Equity represents the shareholders' claims on assets and most of those assets are in the form of Plant and Equipment. There is very little cash so the company would have to borrow money to pay the dividend. Borrowing is not a good idea given that the liquidity of the company is already weak. For example, the combined total of cash and accounts receivable is insufficient to cover accounts payable.*

Exercise 3, p. 606

A. *Value of preferred shares: 27 500 shares × $10 = $275 000*

Dividend on preferred shares: $275 000 × 6% = $16 500

The total dividend on the preferred stock is $16 500.

B. *Dividends on common shares: 76 700 shares × $0.26 = $19 942*

The total dividend on the common stock is $19 942.

Name ______________________ Date ______________________

CHAPTER 12 REVIEW EXERCISES (continued)

Exercise 3, p. 606 (continued)

C., D.

GENERAL JOURNAL PAGE

DATE		PARTICULARS	P.R.	DEBIT	CREDIT
20– Apr.	12	Retained Earnings		36 442 –	
		Dividends Payable—Common			19 942 –
		Dividends Payable—Preferred			16 500 –
		Dividends declared			
	30	Dividends Payable—Common		19 942 –	
		Dividends Payable—Preferred		16 500 –	
		Bank			36 442 –
		Payment of dividends declared April 12			

Exercise 4, p. 606

- *A sales figure of $300 000 indicates that this is a medium-sized company.*
- *A current ratio of less than 2 and a quick ratio of less than 1 indicates that the company's cash position is only fair.*
- *The collection period figure of 63 days is worrying. Unless the company offers its customers terms of 60 days, the figure of 63 days is poor and suggests that the company is not good at collecting its accounts receivable.*
- *The inventory turnover figure is quite low at 2.9 times per year. Unless a low inventory turnover is normal for this company's industry, this figure is something to be concerned about.*
- *The debt ratio is fairly high at 0.56, indicating that the company has financed its assets more through debt than equity. The size of the debt might not be too large since the company still manages a healthy value of 11.2 for the times interest earned.*
- *The 7.6% return on equity is good if other investment opportunities are below this rate. This means that, despite some concerns from the balance sheet, the company is capable of generating profits.*

Name ______________________ Date ______________________

CHAPTER 12 REVIEW EXERCISES (continued)

Exercise 5, p. 607

The $16 000 figure is a more accurate measure of the average inventory than the $12 000 calculated in the usual way. Therefore, 6.3 times gives a more realistic inventory turnover figure. You must be careful, however, when comparing the 6.3 times results to those of other companies. Most companies' inventory turnover figures will be calculated with the average of just two inventory amounts: the beginning and ending inventory.

Exercise 6, p. 607

A. *Answers will vary. Students should research two viable public businesses so EPS and P/E ratios can be found.*

B. *The EPS ratio or earnings per share ratio gives a common base for comparing the profitability of two different companies. The EPS ratio can be easily compared to the market price of a company's stock, which is also expressed per share. For example, if a stock is selling at $50 per share, yet is earning only 25 cents per share, an investor should probably investigate further before buying the stock.*

C. *The P/E ratio stands for price/earnings ratio. The ratio is calculated by dividing the market price per share by the earnings per share.*

D. *Answers will vary. Students should express caution about judging the merits of a stock based on the P/E ratio alone. A high P/E ratio means investors are very confident about the stock. Sometimes this confidence is justified but sometimes it means the stock is overpriced. A low P/E ratio might be a warning sign that investors are aware of other important factors that will adversely affect the company or it might mean that the stock is undervalued.*

Name ______________________________ Date ______________________________

CHAPTER 12 REVIEW EXERCISES (continued)

Exercise 7, p. 607

A.

Description	Pluto	Neptune
Current ratio	*2.2*	*1.0*
Quick ratio	*1.4*	*0.7*
Collection period	*31.7*	*46.1*
Inventory turnover	*12.1*	*7.5*
Rate of return on net sales	*11.9*	*7.0*
Rate of return on equity*	*30.6*	*16.8*
Debt ratio	*25.4*	*33.5*
Equity ratio	*74.6*	*66.5*
Times interest earned	*7.3*	*2.0*

* Average equity figure not used.

B. *Although Neptune's performance falls far short of Pluto's there are no serious danger signs. The poor current ratio of 1.0 for Neptune is caused by its large bank loan. The $90 000 loan is a concern because it incurs interest costs. However, since the debt likely takes the form of a demand loan, it will not be due for payment unless the bank gets nervous about Neptune's ability to meet the monthly interest costs. So far, Neptune has been able to meet its obligations and earn a profit. The large bank loan is also responsible for the other poor statistic of 2.0 for times interest earned. The collection period for Neptune is too long at 46 days but when the company is purchased Pluto will implement its accounts receivable policies to correct the situation.*

C. *Pluto should take a chance and purchase Neptune. Neptune is earning a profit, even while faced with an annual rent expense of $49 000. Neptune owns its own facilities so the $49 000 rent expense will be eliminated making the purchase proposal very attractive indeed. In addition to the impressive credit ranting and collection policies of Pluto, Neptune's inventory turnover may also benefit from Pluto's obvious expertise with inventory management.*

Name ______________________ Date ______________________

CHAPTER 12 REVIEW EXERCISES (continued)

Exercise 8, p. 608

	Lemaire	Kennedy	Henning	Dudley
Allocation of Salaries	*$12 500 –*	*$12 500 –*		
Allocation of Balance of Net				
Income:				
$126 040.28				
Less 25 000.00				
$101 040.28 (equally)	*$25 260 07*	*$25 260 07*	*$25 260 07*	*$25 260 07*
Totals to Partners	*$37 760 07*	*$37 760 07*	*$25 260 07*	*$25 260 07*

Exercise 9, p. 608

BARNES, DOBY, AND FIROZ

STATEMENT OF DISTRIBUTION OF NET INCOME

YEAR ENDED APRIL 30, 20–

Net Income Available for Distribution				*$87 199 21*
	A. Barnes	*W. Doby*	*S.Firoz*	*Total*
Salaries Allowed			*$10 000 –*	*$10 000 –*
Interest at 9% allowed on Capital	*$ 1800 –*	*$ 3150 –*	*495 –*	*5445 –*
A. Barnes—9% of $20 000				
= $1800				
W. Doby—9% of $35 000				
= $3150				
S. Firoz—9% of $5500 = $495				
Balance of Net Income divided				
in 4:4:3 ratio	*26 092 44*	*26 092 44*	*19 569 33*	*71 754 21*
Totals	*$27 892 44*	*$29 242 44*	*$30 064 33*	*$87 199 21*

Name ______________________ Date ______________________

CHAPTER 12 REVIEW EXERCISES (continued)

Exercise 10, p. 609

A.

FRAME BROTHERS

STATEMENT OF DISTRIBUTION OF NET INCOME

YEAR ENDED DECEMBER 31, 20—

	S. Frame	G. Frame	Total
Net Income available for distribution			$57,647.98
Salaries allowed to partners	$20,000.–	$16,000.–	$36,000.–
Balance of net income divided in the ratio of 2:1	14,431.99	7,215.99	21,647.98
Total distributed to partners	$34,431.99	$23,215.99	$57,647.98

B.

FRAME BROTHERS

STATEMENT OF PARTNERS' CAPITAL

YEAR ENDED DECEMBER 31, 20–

	S. Frame	G. Frame	Total
Capital Balances January 1	$40,000.–	$40,000.–	$ 80,000.–
Add: Share of Net Income for Year	34,431.99	23,215.99	57,647.98
	$74,431.99	$63,215.99	$137,647.98
Deduct: Drawings for Year	21,166.12	21,133.40	42,299.52
Capital Balances December 31	$53,265.87	$42,082.59	$ 95,348.46

Name ______________________ Date ______________________

CHAPTER 12 REVIEW EXERCISES (continued)

Exercise 10, p. 609 (continued)

C.

FRAME BROTHERS

BALANCE SHEET

DECEMBER 31, 20–

ASSETS			
Current Assets			
Petty Cash		$ 100.00	
Bank		625.40	
Accounts Receivable		18 184.32	
Merchandise Inventory		57 150.00	$76 059.72
Prepaid Expenses			
Supplies		$ 650.00	
Prepaid Insurance		224.00	874.00
Long-Term Assets			
Furniture and Equipment	$38 146.00		
Less Accumulated Depreciation	15 480.72	$22 665.28	
Automobiles	$53 285.80		
Less Accumulated Depreciation	31 908.10	21 377.70	44 042.98
Total Assets			$120 976.70
LIABILITIES			
Current Liabilities			
Bank Loan		$10 000.00	
Accounts Payable		13 240.84	
Sales Tax Payable		2 387.40	$ 25 628.24
PARTNERS' EQUITY			
Partners' Capital			
S. Frame		$53 265.87	
G. Frame		42 082.59	95 348.46
Total Liabilities and Partners' Equity			$120 976.70

Name ______________________________ Date ______________________________

CHAPTER 12 REVIEW EXERCISES (continued)

Exercise 10, p. 609 (continued)

D.

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PAGE

DATE		PARTICULARS	P.R.	DEBIT		CREDIT	
		Closing Entries					
20– Dec.	*31*	*Merchandise Inventory*		*57150*	*–*		
		Sales		*271405*	*40*		
		Income Summary				*328555*	*40*
	31	*Income Summary*		*270907*	*42*		
		Merchandise Inventory				*54110*	*–*
		Bank Charges				*900*	*–*
		Miscellaneous Expense				*384*	*40*
		Purchases				*96307*	*60*
		Rent Expense				*24000*	*–*
		Telephone Expense				*1315*	*34*
		Utilities Expense				*1940*	*40*
		Wages Expense				*75883*	*50*
		Supplies Expense				*830*	*–*
		Insurance Expense				*408*	*–*
		Depreciation Furn. & Equip.				*5666*	*32*
		Depreciation Automobiles				*9161*	*86*
	31	*Income Summary*		*57647*	*98*		
		S. Frame, Capital				*34431*	*99*
		G. Frame, Capital				*23215*	*99*
	31	*S. Frame, Capital*		*21166*	*12*		
		G. Frame, Capital		*21133*	*40*		
		S. Frame, Drawings				*21166*	*12*
		G. Frame, Drawings				*21133*	*40*

Name ______________________ Date ______________________

CHAPTER 12 REVIEW EXERCISES (continued)

Cases for Further Thought, page 610

1. *John Smith could raise the money he needs without giving up any control in the company by selling preferred shares. Also, he can issue the remaining common shares of the company and sell up to 49 999 of them to other people. As long as he owns 50 001 (or 50% plus one), he will have effective control of the company because he cannot be outvoted.*

2. *Limited liability could be a disadvantage to someone doing business with a corporation if the person is injured as a result of negligence by the company. The company may have very little equity or insurance. Even if the company has few assets for the injured person to claim, they can only sue the company not its owners.*

3. *A corporation can be effectively controlled by a person holding less than 50% of the shares plus one if the shares are widely distributed between many shareholders. Shareholders with few shares have little stake in the company, rarely attend annual meetings, vote, or organize into voting blocks. This gives anyone with a comparatively larger share of the company the power to influence the company's direction at the annual meeting.*

4. *The shareholders of the corporation would lose money when their share values dropped as a result of the expected reduction in company profits due to the compensation settlement and the negative publicity.*

5. *False. You will only receive the dividend if you own the shares on the date of record, which is several days after the date of declaration.*

6. *A company with a high inventory turnover sells a large volume of items per year. This company can afford to have a lower per item profit margin because the total overall profit earned in a year is very large due to the volume. A company with a low inventory turnover sells a small number of items per year so the profit earned on each item must be large in order for the total yearly profit to be acceptable.*

7. *A company with a high debt ratio is operating on borrowed money. Such a company will have to pay interest on the debt and therefore will likely have a large interest expense figure.*

8. *A company's collection period could be gradually increasing because the company has given its clients longer payment terms or it has become less efficient in collecting its accounts receivable. A downturn in the economy could also cause cash shortages among the business's credit customers resulting in slower payment of the accounts receivable.*

9. *If the company's assets are undervalued, the debt ratio will be overstated and the equity ratio will be understated. When calculating the rate of return on equity, the net income is the numerator. This amount is not affected by the asset undervaluation. Since the denominator (equity) shrinks due to the undervaluation, the rate of return actually increases and is overstated.*

Name ____________________ Date ____________________

CHAPTER 12 REVIEW EXERCISES (continued)

Cases for Further Thought, page 610 (continued)

10. *Answers will vary. To quickly evaluate two companies, I would use the current ratio, the collection period, the inventory turnover, the debt ratio, and the return on equity figure. The current ratio shows the company's ability to pay its short-term debts. The collection period shows whether the company is efficient in collecting its receivables, which is a good indicator of the company's overall efficiency. The inventory turnover indicates the high cost of having inventory sit on the shelves. The debt ratio shows how much debt the company carries in relation to total assets. The return on equity figure measures the company's performance against other investment opportunities.*

11. *If the company's equity ratio is 8%, this means its debt ratio is 92%. This company is operating almost entirely on credit with very little shareholder investment. This is not a safe company to sell to on credit because it already has more creditors than it could pay off with its assets. Also, its interest costs must be quite high. To protect yourself, you might consider dealing with this company on a cash basis only. Or, if that measure is too drastic, investigate the company's profitability and payment record to get a better idea of how well it handles its debts to its current suppliers.*

12. *The banker is concerned about your current ratio of 0.64 because it is quite poor. Your bank balance, $150, and your accounts receivable, $9052, cannot cover the $75 256 accounts payable you owe your vendors. If you can sell the marketable securities for $125 000, you improve the current ratio to 0.90. This one-time solution is insufficient. The current ratio is still very weak and worsens when the acid test is applied because of the large amount of inventory.*

13. *The obsolete merchandise inventory must be written off immediately. This will reduce the current ratio to 1.3, which shows the company's true liquidity status to be poor.*

CASE STUDIES (page 611)

Case 1 *Buy the Shares or the Assets?* (p. 611)

1. *Jane Church understated the inventory on the financial statements in order to understate the net income by deceptively increasing the cost of goods sold (COGS = Cost of Goods Available – Ending Inventory). Having a lower net income reduced the amount of corporate income tax Jane's company paid last year.*

Name ______________________ Date ______________________

CASE STUDIES (continued)

Case 1 *Buy the Shares or the Assets?* (continued)

2. *Cynthia is concerned about the misrepresented inventory because if she buys the shares, the corporation continues to operate. Consequently, the tax that Jane dodged is merely deferred to the following year. To illustrate, the count of next year's ending inventory will include the $250 000 that Jane did not report. The high ending inventory will lower the cost of goods sold. The lower cost means more net income and more income taxes. Also, since the corporation is a separate legal entity, it may be liable for fines and penalties connected to tax evasion while Jane was in charge.*

3. *It is to Jane's advantage to sell the shares rather than the company assets because the corporation will continue to exist and will be responsible for any future tax liability. If the company is dissolved, Jane can expect a personal investigation from the Canada Revenue Agency into her conduct when she was the CEO of the company.*

4. *It is to Cynthia's advantage to buy the company assets and not the shares because she does not inherit the inventory problem and the resulting income tax problem.*

Case 2 *Control of a Corporation* (p. 611)

1. *There are 500 shares in total.*
2. *The shareholders who control the corporation are Clarke (65 shares), Brasseur (100 shares), and Moukas (70 shares), for a total of 235 shares.*
3. *If you bought Farmer's shares, you could count on Baker, with 40 shares, for guaranteed support.*
4. *You would need an additional 61 shares on your side to get certain control.*
5. *The chances of getting 61 shares are doubtful. It would be necessary to buy Mrs. Allair and Mrs. Greig's shares. They both support the current management so it is unlikely they will sell to you.*
6. *To prevent you from acquiring a controlling interest, the controlling shareholders would purchase 16 shares from Mrs. Greig or Mrs. Allair. Then they would have absolute control of the company.*
7. *The controlling shareholders can easily stop you from gaining control of the company so Farmer's plan will not work. You are better off asking Farmer for a lower price for his shares if you can accept the current management or looking for another investment opportunity.*

Name ______________________ Date ______________________

CASE STUDIES (continued)

Case 3 *A Problem of Sudden Termination* (p. 612)

1. *Partnership law states that upon the death of a partner, the partnership is terminated.*
2. *Nashimo has $45 248 of equity in the business.*
3. *The business has an estimated worth of $300 000.*
4. *Nashimo's family should get $150 000 out of the business.*
5. *Iwasko's problem is that the business does not have $150 000 to pay out Nashimo's share.*
6. *The most straightforward solution to the problem in Question 5 is for Iwasko to borrow the money.*
7. *An undesirable aspect of borrowing is the interest expense and principal repayment. A desirable aspect of borrowing is retaining total control of the business.*
8. *An alternative course of action is that Iwasko forms a new partnership with someone in Nashimo's family. An undesirable aspect of the course of action is that the new partner may not have any skills pertinent to the business and may not get along with Iwasko.*
9. *If Iwasko cannot borrow the money or make a deal with Nashimo's family, the business will have to be liquidated.*
10. *Liquidating the company would involve the additional hardship of getting much less for the assets than they are worth since they must be sold quickly.*
11. *If the partnership took out life insurance on both partners then the deceased partner's insurance would cover paying out their share of the business to their family.*

Case 4: Challenge *The Partner You Know or the Shareholder You Don't—Choosing between a Partnership or Corporation* (p. 614)

Part A, p. 614

1. *The bank manager would pre-approve a loan if the sisters formed a partnership because the bank would have a legal claim on the sisters' assets and could recover the loan if necessary. If the sisters formed a corporation, they would have limited liability and their personal assets could not be claimed to pay back the loan. The bank manager will not pre-approve a loan to a newly formed corporation with few assets and no clients because it is too great a risk.*
2. *If the sisters form a corporation, the bank manager would ask one or all of the sisters to sign agreements that guaranteed the loan to the corporation. These personal guarantees would give the bank access to the sisters' assets in case the corporation defaulted on the loan.*

Name ______________________________ Date ______________________________

CASE STUDIES (continued)

Case 4: Challenge *The Partner You Know or the Shareholder You Don't—Choosing between a Partnership or Corporation* (continued)

Part A, p. 615 (continued)

3.

SELL DEM BOARD GAMES

STATEMENT OF DISTRIBUTION OF PROJECTED NET INCOME

YEAR ENDED JUNE 30, 20–1

Net Income available for distribution					*$66 000*
	Cheryl	*Yvonne*	*Beverly*	*Jack*	*Totals*
Interest at 5% of					
capital account					
balance	*$10 000 –*	*$10 000 –*	*$10 000 –*	*$30 000 –*	*$60 000 –*
Balance of income					
divided 1:1:1:3	*1 000 –*	*1 000 –*	*1 000 –*	*3 000 –*	*6 000 –*
Total share of					
net income	*$11 000 –*	*$11 000 –*	*$11 000 –*	*$33 000 –*	*$66 000 –*

SELL DEM BOARD GAMES

STATEMENT OF DISTRIBUTION OF PROJECTED NET INCOME

YEAR ENDED JUNE 30, 20–2

Net Income available for distribution					*$138 000*
	Cheryl	*Yvonne*	*Beverly*	*Jack*	*Totals*
Interest at 5% of					
capital account					
balance	*$9 350 –*	*$9 350 –*	*$9 350 –*	*$29 550 –*	*$57 600 –*
Balance of income					
divided 1:1:1:3	*13 400 –*	*13 400 –*	*13 400 –*	*40 200 –*	*80 400 –*
Total share of					
net income	*$22 750 –*	*$22 750 –*	*$22 750 –*	*$69 750 –*	*$138 000 –*

Name ______________________ Date ______________________

CASE STUDIES (continued)

Case 4: Challenge *The Partner You Know or the Shareholder You Don't—Choosing between a Partnership or Corporation* (continued)

Part A, p. 615 (continued)

4.

SELL DEM BOARD GAMES

STATEMENT OF PARTNERS' CAPITAL

YEAR ENDED JUNE 30, 20–1

	Cheryl	Yvonne	Beverly	Jack	Totals
Capital Balances					
July 1	$200 000 –	$200 000 –	$200 000 –	$600 000 –	$1200 000 –
Add: Share of					
Net Income	11 000 –	11 000 –	11 000 –	33 000 –	66 000 –
	$211 000 –	$211 000 –	$211 000 –	$633 000 –	$1266 000 –
Deduct: Drawings					
for year	24 000 –	24 000 –	24 000 –	42 000 –	114 000 –
Total Capital	$187 000 –	$187 000 –	$187 000 –	$591 000 –	$1152 000 –

SELL DEM BOARD GAMES

STATEMENT OF PARTNERS' CAPITAL

YEAR ENDED JUNE 30, 20–2

	Cheryl	Yvonne	Beverly	Jack	Totals
Capital Balances					
July 1	$187 000 –	$187 000 –	$187 000 –	$591 000 –	$1152 000 –
Add: Share of					
Net Income	22 750 –	22 750 –	22 750 –	69 750 –	138 000 –
	$209 750 –	$209 750 –	$209 750 –	$660 750 –	$1290 000 –
Deduct: Drawings					
for year	24 000 –	24 000 –	24 000 –	42 000 –	114 000 –
Total Capital	$185 750 –	$185 750 –	$185 750 –	$618 750 –	$1176 000 –

Name ______________________ Date ______________________

CASE STUDIES (continued)

Case 4: Challenge *The Partner You Know or the Shareholder You Don't—Choosing between a Partnership or a Corporation* (continued)

Part A, p. 616 (continued)

5.

SELL DEM BOARD GAMES

SUMMARY OF CAPITAL BALANCES

JULY 1, 20–0 TO JUNE 30, 20–2

	Cheryl	Yvonne	Beverly	Jack	Totals
July 1, 20–0	$200 000 –	$200 000 –	$200 000 –	$600 000 –	$1200 000 –
Percent	16.7%	16.7%	16.7%	50.0%	100.0%
June 30, 20–1	$187 000 –	$187 000 –	$187 000 –	$591 000 –	$1152 000 –
Percent	16.2%	16.2%	16.2%	51.3%	100.0%
June 30, 20–2	$185 750 –	$185 750 –	$185 750 –	$618 750 –	$1176 000 –
Percent	15.8%	15.8%	15.8%	52.6%	100.0%

Part B, p. 617

1.

Net Income (Partnership)		$ 66 000 –
Public Corporation Expenses		
Management Salaries	$ 72 000 –	
Costs	102 500 –	
Extra Accounting Fees	25 000 –	
Bank Interest @ 9%	13 500 –	
		213 000 –
Net Loss (Corporation)		$(147 000 –)

Name ______________________ Date ______________________

CASE STUDIES (continued)

Case 4: Challenge *The Partner You Know or the Shareholder You Don't—Choosing between a Partnership or Corporation* (continued)

Part B, p. 617 (continued)

2.

SHAREHOLDERS' EQUITY

JUNE 30, 20–1

Common Stock	*$1050 0 0 0 –*	
Retained Earnings	*(147 0 0 0 –)*	*$903 0 0 0 –*

3.

Net Income (Partnership)		*$138 0 0 0 –*
Public Corporation Expenses		
Management Salaries	*$72 0 0 0 –*	
Extra Accounting Fees	*25 0 0 0 –*	
Bank Interest	*13 5 0 0 –*	
Net Loss (Corporation)		*110 0 0 0 –*
		$ (19 8 7 5 –)

4.

SHAREHOLDERS' EQUITY

JUNE 30, 20–2

Common Stock	*$1050 0 0 0 –*	
Retained Earnings	*(166 8 7 5 –)*	*$883 1 2 5 –*

5. *On June 30, 20–2, each sister would have a 19.05% share in the corporation (200 000 shares divided by the 1 050 000 shares outstanding). Under Jack's partnership proposal, each sister would have a 15.80% share in the partnership.*

	Total Equity	*Dollar Share*	*Percent Share*
Partnership	*$1176 0 0 0 –*	*$185 7 5 0 –*	*15.80%*
Corporation	*883 1 2 5 –*	*168 2 1 4 –*	*19.05%*
Difference	*$292 8 7 5 –*	*$ 17 5 3 6 –*	*–3.25%*

Name ______________________ Date ______________________

CASE STUDIES (continued)

Case 4: Challenge *The Partner You Know or the Shareholder You Don't—Choosing between a Partnership or Corporation* (continued)

Part C, p. 617

Reports will vary. Students should include information gathered from the TSX Venture Exchange website. A major portion of the report should comment on how much equity each sister would have under the two proposals.

The table from Part B, Question 5, appears to favour the partnership. However, the costs of going public were charged as an expense in the first year. If that amount were amortized over a number of years, each sister's dollar share of equity would be higher in the corporate model.

In addition, the potential for growth is limited in the partnership model because Jack's drawings are twice as much as those of the sisters and he is earning more interest on his large initial Capital balance. Holding 19.05% of the company's shares gives each sister the opportunity to make rapid gains in equity if the company is profitable.

The partnership would also make the sisters subordinate to Jack's large capital and aggressive nature. By forming a corporation, no one individual could have more votes than the combined total of the sisters. Their policy decisions could not be challenged.

CAREER — Tammy Drew, CGA/General Manager, Intergovernmental Secretariat, Miawpukek First Nation (page 618)

Discussion (p. 618)

1. *The education requirements for a CGA normally include six years of post-secondary education plus applicable work experience. When Tammy achieved her designation, she was able to accomplish it with a two-year finance diploma, four years of CGA correspondence courses, and applicable work experience.*
2. *The CGA correspondence courses were useful to Tammy because she could live at home on the reserve and raise her children. She could also work full time and contribute to her community while she studied.*
3. *Answers will vary. Advantages of taking correspondence courses include not needing to travel to school, convenient study times, and the ability to work while studying. Disadvantages include a lack of direct instruction from teachers, the need for a lot of self-discipline to complete lessons when there is no fixed schedule, and less contact with other students.*