



**P2-3 (continued)**

Req. 4 (22 marks)

**Injection Plastics Company**  
**Statement of Financial Position (or Balance Sheet)**  
**As at December 31, 2015**

<b>Assets</b>		<b>Liabilities</b>	
<b>Current Assets</b>		<b>Current Liabilities</b>	
Cash	\$ 7,000	Trade payables	\$ 15,000
Investments	11,000	Accrued liabilities	2,000
Trade receivables	3,000	Short-term Borrowings	<u>26,000</u>
Inventories	<u>24,000</u>	<b>Total Current Liabilities</b>	<b>43,000</b>
<b>Total Current Assets</b>	<b><u>45,000</u></b>	<b>Non-current Liabilities</b>	
<b>Non-current Assets</b>		Notes payable	<u>64,000</u>
Notes receivable	8,000	<b>Total Liabilities</b>	<b><u>107,000</u></b>
Equipment	65,000	<b>Shareholders' Equity</b>	
Factory building	115,000	Contributed capital	102,000
Intangibles	<u>6,000</u>	Retained earnings	<u>30,000</u>
<b>Total Assets</b>	<b><u>\$239,000</u></b>	<b>Total Shareholders' Equity</b>	<b><u>132,000</u></b>
		<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$239,000</u></b>

Req. 5 (3 marks)

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$45,000}{\$43,000} = 1.05$$

This suggests that for every \$1 in current liabilities, Injection Plastics Company has \$1.05 in current assets. Analysis of the current assets indicates that inventory makes up about 50 percent of these assets. This may present a potential problem if demand for this inventory drops causing the company to sell it at less than its carrying amount. Otherwise, the company should be able to settle its short-term obligations as they become due.

**CP2-7 (12 marks)****Req. 1 (4 marks)**

**Dewey, Cheetum and Howe, Inc.**  
**Statement of Financial Position (or Balance Sheet)**  
**As at December 31, 2015**

<b>Assets</b>	
Cash	\$ 1,000
Accounts receivable	8,000
Inventory	8,000
<b>Total current assets</b>	17,000
Furniture and fixtures	52,000
Delivery truck (net)	12,000
Buildings (net)	60,000
<b>Total assets</b>	\$141,000
<b>Liabilities</b>	
Accounts payable	\$ 16,000
Payroll taxes payable	13,000
<b>Total current liabilities</b>	29,000
Long-term notes payable	15,000
Mortgage payable	50,000
<b>Total liabilities</b>	94,000
<b>Shareholders' Equity</b>	
Contributed capital	80,000
Accumulated deficit <sup>1</sup>	(33,000)
<b>Total shareholders' equity</b>	47,000
<b>Total liabilities and shareholders' equity</b>	\$141,000

<sup>1</sup> Retained earnings as presented \$5,000 – (98,000, building at market – 60,000, building at cost) = \$5,000 – 38,000 = \$(33,000)

**Req. 2 (8 marks)**

Dear \_\_\_\_\_, **(proper salutation)**

I corrected the statement of financial position for Dewey, Cheetum and Howe, Inc. Primarily, I reduced the amount reported for buildings to \$60,000 which is the historical cost less accumulated amortization. The \$38,000 difference (\$98,000 – \$60,000) reduces total assets and reduces retained earnings. In fact, retained earnings becomes negative (a deficit) suggesting that there may have been several years of operating losses.

Before making a final decision on investing in this company, you should examine the past three years of audited statement of earnings and the past two years of audited statements of financial position to identify positive and negative trends for this company. You can also compare this company's current ratio to that of the industry (and to the prior year) to assess trends in liquidity. You should also learn as much about the industry as you can by reviewing recent articles on economic and technological trends which may have an impact on this company.