

# CLASSIFIED BALANCE SHEET, RATIO ANALYSIS AND ACCOUNTING PRINCIPLES

## Key Topics to Know

### Classified Balance Sheet

- Standard groupings are:
  - Current assets
  - Long-term investments
  - Property, plant and equipment
  - Intangible assets
  - Current liabilities
  - Long-term liabilities
  - Stockholders' equity
- Current vs. Long-term

### Ratio Analysis

- Income statement
  - Earnings per Share
- Liquidity
  - Working Capital
  - Current Ratio
- Solvency
  - Debt to Assets Ratio
- Statement of cash Flows
  - Free Cash Flows

### Accounting Principles:

- GAAP: Generally Accepted Accounting Principles
- Fundamental Qualities: Relevance and Faithful Representation
- Enhancing qualities: Comparability, Verifiability, Timeliness and Understandability
- Assumptions in Financial Reporting: Monetary Unit, Economic (Business) Entity, Periodicity, Going Concern
- Principles in Financial Reporting: Historical Cost, Full Disclosure, Fair Value
- Other accounting principles: Revenue Recognition, Expense Recognition, Objectivity

## Problems

### **Problem #1 – Classified Balance Sheet**

The adjusted trial balance as of December 31 for Focus Package Delivery is shown below,

Adjusted Trial Balance		
Cash	\$18,200	
Accounts Receivable	34,200	
Supplies	2,100	
Long-term Investments	25,000	
Trucks	45,000	
Accum. Depr. – Trucks		\$11,080
Intangible Assets	16,000	
Accounts Payable		16,200
Wages Payable		4,120
Current Maturities Long-Term Debt		2,000
Long-Term Debt		18,000
Common Stock		10,000
Retained earnings		30,400
Dividends	15,000	
Delivery Fees earned		145,000
Rent Expense	8,000	
Wages Expense	62,000	
Supplies Expense	2,500	
Depreciation Expense	4,050	
Utilities Expense	3,750	
Interest Expense	1,000	
	\$236,800	\$236,800

Required:            Prepare a classified balance sheet.

## Multiple Choice Questions

1. GAAP is an abbreviation for:
  - a) Generally authorized accounting procedures.
  - b) Generally applied accounting procedures.
  - c) Generally accepted auditing practices.
  - d) Generally accepted accounting principles.
  
2. A classified balance sheet:
  - a) Measures a company's ability to pay its bills on time.
  - b) Organizes assets and liabilities into important subgroups that provide more information
  - c) Broadly groups items into assets, liabilities and equity
  - d) Reports operating, investing, and financing activities
  
3. The assets section of a classified balance sheet usually includes the subgroups:
  - a) Current assets, long-term investments, plant assets, and intangible assets
  - b) Current assets, long-term assets, revenues, and intangible assets
  - c) Current liabilities, long-term investments, plant assets, and intangible assets
  - d) Current assets, liabilities, plant assets, and intangible assets
  
4. A classified balance sheet differs from an unclassified balance sheet in that
  - a) A classified balance sheet groups items into the broad categories of asset, liability, and equity.
  - b) An unclassified balance sheet is never used by large companies
  - c) A classified balance sheet presents information in a manner that makes it easier to calculate a company's current ratio.
  - d) A classified balance sheet will include more accounts than an unclassified balance sheet for the same company on the same date.
  
5. Which of the following statements about a company's operating cycle is *not* true:
  - a) Non-current items are those expected to come due within one year or the company's operating cycle.
  - b) The operating cycle is the time span from when cash is used to acquire goods and services until cash is received from the sale of goods and services.
  - c) For a merchandiser selling products, the operating cycle is the time span between paying suppliers for merchandise and receiving cash from customers.
  - d) Most operating cycles are less than one year

6. Which of the following are classified as plant assets?
  - a) Office equipment
  - b) Patent
  - c) Cash
  - d) Merchandise inventory
  
7. Which of the following accounts could not be classified as a current liability?
  - a) Unearned revenues
  - b) Accounts payable
  - c) Notes payable (due in 11 months).
  - d) Notes payable (due in 5 years).
  
8. Which of the following are not classified as long-term liabilities?
  - a) Mortgage payable
  - b) Current portion of long-term note payable
  - c) Note payable
  - d) Bonds payable
  
9. Long-term investments include all of the following except:
  - a) Stock of other companies not held for resale
  - b) Bonds of another company which will be held to maturity
  - c) Land under the factory building
  - d) Land for future expansion
  
10. Classified balance sheets would be most useful for:
  - a) The owner of a group of restaurants
  - b) The manager of a single restaurant
  - c) A customer one of the restaurants
  - d) The executive chef of the restaurant group

## Solutions to Problems

### Problem #1 – Classified Balance Sheet

Focus Package Delivery  
Balance Sheet  
December 31

Assets			
Current Assets			
Cash	\$18,200		
Accounts Receivable	34,200		
Supplies	2,100		
Total Current Assets		\$54,500	
Long-term Investments			25,000
Property, Plant and Equipment			
Trucks	45,000		
Less: Accum. Depr.	11,080		
			33,920
Intangible Assets			16,000
Total Assets			\$129,420
Liabilities			
Current Liabilities			
Current Maturities Long-Term Debt	\$2,000		
Accounts Payable	16,200		
Wages Payable	4,120		
Total Current Liabilities		\$22,320	
Long-Term Debt			18,000
Total Liabilities			40,320
Equity			
Common Stock			10,000
Retained Earnings			79,100
			89,100
			\$129,420

## Solutions to Multiple Choice Questions

- |     |   |
|-----|---|
| 1.  | D |
| 2.  | B |
| 3.  | A |
| 4.  | C |
| 5.  | A |
| 6.  | A |
| 7.  | D |
| 8.  | B |
| 9.  | C |
| 10. | A |