**E2-1** The following are the major balance sheet classifications.

1. Current assets (CA)
2. Long‐term investments (LTI)
3. Property, plant, and equipment (PPE)
4. Intangible assets (IA)
5. Current liabilities (CL)
6. Long‐term liabilities (LTL)
7. Stockholders' equity (SE)

***Instructions***

Classify each of the following financial statement items taken from Ming Corporation's balance sheet.

1. \_\_\_\_\_\_\_\_ Accounts payable
2. \_\_\_\_\_\_\_\_ Accounts receivable
3. \_\_\_\_\_\_\_\_ Accumulated depreciation—equipment
4. \_\_\_\_\_\_\_\_ Buildings
5. \_\_\_\_\_\_\_\_ Cash
6. \_\_\_\_\_\_\_\_ Interest payable
7. \_\_\_\_\_\_\_\_ Goodwill
8. \_\_\_\_\_\_\_\_ Income taxes payable
9. \_\_\_\_\_\_\_\_ Inventory
10. \_\_\_\_\_\_\_\_ Stock investments (to be sold in 7 months)
11. \_\_\_\_\_\_\_\_ Land (in use)
12. \_\_\_\_\_\_\_\_ Mortgage payable
13. \_\_\_\_\_\_\_\_ Supplies
14. \_\_\_\_\_\_\_\_ Equipment
15. \_\_\_\_\_\_\_\_ Prepaid rent

*Classify financial statement items by balance sheet classification*.

**(LO 1), AP**

**E2-8** These financial statement items are for Fairview Corporation at year‐end, July 31, 2017.

|  |  |
| --- | --- |
| Salaries and wages payable | $ 2,080 |
| Salaries and wages expense | 57,500 |
| Supplies expense | 15,600 |
| Equipment | 18,500 |
| Accounts payable | 4,100 |
| Service revenue | 66,100 |
| Rent revenue | 8,500 |
| Notes payable (due in 2020) | 1,800 |
| Common stock | 16,000 |
| Cash | 29,200 |
| Accounts receivable | 9,780 |
| Accumulated depreciation—equipment | 6,000 |
| Dividends | 4,000 |
| Depreciation expense | 4,000 |
| Retained earnings (beginning of the year) | 34,000 |

***Instructions***

(a) Prepare an income statement and a retained earnings statement for the year. Fairview Corporation did not issue any new stock during the year.

(b) Prepare a classified balance sheet at July 31.

(c) Compute the current ratio and debt to assets ratio.

(d) Suppose that you are the president of Lunar Equipment. Your sales manager has approached you with a proposal to sell $20,000 of equipment to Fairview. He would like to provide a loan to Fairview in the form of a 10%, 5‐year note payable. Evaluate how this loan would change Fairview's current ratio and debt to assets ratio, and discuss whether you would make the sale.

*Compute liquidity ratios and compare results*.

**P2-2A** These items are taken from the financial statements of Martin Corporation for 2017.

|  |  |
| --- | --- |
| Retained earnings (beginning of year) | $31,000 |
| Utilities expense | 2,000 |
| Equipment | 66,000 |
| Accounts payable | 18,300 |
| Cash | 10,100 |
| Salaries and wages payable | 3,000 |
| Common stock | 12,000 |
| Dividends | 12,000 |
| Service revenue | 68,000 |
| Prepaid insurance | 3,500 |
| Maintenance and repairs expense | 1,800 |
| Depreciation expense | 3,600 |
| Accounts receivable | 11,700 |
| Insurance expense | 2,200 |
| Salaries and wages expense | 37,000 |
| Accumulated depreciation—equipment | 17,600 |

***Instructions***

Prepare an income statement, a retained earnings statement, and a classified balance sheet as of December 31, 2017.

|  |  |
| --- | --- |
| Net income | $21,400 |
| Tot. assets | $73,700 |

*Prepare financial statements*.

**(LO 1), AP**

**P2-3A** You are provided with the following information for Lazuris Enterprises, effective as of its April 30, 2017, year‐end.

|  |  |
| --- | --- |
| Accounts payable | $ 834 |
| Accounts receivable | 810 |
| Accumulated depreciation—equipment | 670 |
| Cash | 1,270 |
| Common stock | 900 |
| Cost of goods sold | 1,060 |
| Depreciation expense | 335 |
| Dividends | 325 |
| Equipment | 2,420 |
| Income tax expense | 165 |
| Income taxes payable | 135 |
| Insurance expense | 210 |
| Interest expense | 400 |
| Inventory | 967 |
| Land | 3,100 |
| Mortgage payable | 3,500 |
| Notes payable | 61 |
| Prepaid insurance | 60 |
| Retained earnings (beginning) | 1,600 |
| Salaries and wages expense | 700 |
| Salaries and wages payable | 222 |
| Sales revenue | 5,100 |
| Stock investments (short‐term) | 1,200 |

***Instructions***

(a) Prepare an income statement and a retained earnings statement for Lazuris Enterprises for the year ended April 30, 2017.

|  |  |
| --- | --- |
| (a) Net income | $2,230 |

(b) Prepare a classified balance sheet for Lazuris Enterprises as of April 30, 2017.

|  |  |
| --- | --- |
| (b) Tot. current assets | $4,307 |
| Tot. assets | $9,157 |

*Compute ratios; comment on relative profitability, liquidity, and solvency*.

**P2-7A** Selected financial data of two competitors, **Target** and **Wal‐Mart**, are presented here. (All dollars are in millions.) Suppose the data were taken from the 2017 financial statements of each company.

|  | Target (1/31/17) | Wal-Mart (1/31/17) |
| --- | --- | --- |
|  | Income Statement Data for Year |
| Net sales | $64,948   | $401,244   |
| Cost of goods sold | 44,157   | 306,158   |
| Selling and administrative expenses | 16,389   | 76,651   |
| Interest expense | 894   | 2,103   |
| Other income | 28   | 4,213   |
| Income taxes |   1,322   |    7,145   |
| Net income | $  2,214   | $ 13,400   |
|  |  |  |
|  | **Target** | **Wal-Mart** |
|  | **Balance Sheet Data (End of Year)** |
| Current assets | $17,488   | $ 48,949   |
| Noncurrent assets |  26,618   |  114,480   |
| Total assets | $44,106   | $163,429   |
| Current liabilities | $ 10,512   | $  55,390   |
| Long-term liabilities | 19,882   | 42,754   |
| Total stockholders' equity |   13,712   |   65,285   |
| Total liabilities and stockholders' equity | $44,106   | $163,429   |
| Net cash provided by operating activities | $4,430   | $23,147   |
| Cash paid for capital expenditures | $3,547   | $11,499   |
| Dividends declared and paid on common stock | $465   | $3,746   |
| Weighted-average shares outstanding (millions) | 774   | 3,951   |

***Instructions***

For each company, compute these values and ratios.

(a) Working capital.

(b) Current ratio.

(c) Debt to assets ratio.

~~(d) Free cash flow.~~

(e) Earnings per share.

(f) Compare the liquidity and solvency of the two companies.

*Comment on the objectives and qualitative characteristics of financial reporting*.