## S2-6 Financial Analysis and Critical Thinking: Evaluating the Reliability of a Balance Sheet

LO 2-1, 2-4, 2-5

Betsey Jordan asked a local bank for a \$50,000 loan to expand her small company. The bank asked Betsey to submit a financial statement of the business to supplement the loan application. Betsey prepared the following balance sheet.

Balance Sheet June 30, 2013	
Assets	
Cash	\$ 9,000
Inventory	30,000
Equipment	46,000
Personal Residence (monthly payments, \$2,800)	300,000
Remaining Assets	20,000
Total Assets	\$405,000
Liabilities	
Short-term Debt to Suppliers	\$ 62,000
Long-term Debt on Equipment	38,000
Total Debt	100,000
Stockholders' Equity	305,000
Total Liabilities and Stockholders' Equity	<u>\$405,000</u>

## Required:

The balance sheet has several flaws. However, there is at least one major deficiency. Identify it and explain its significance.

## **S2-7** Using Technology to Analyze Transactions and Prepare a Balance Sheet

Assume you recently obtained a part-time accounting position at the corporate headquarters of Elizabeth Arden, Inc., in Miami Lakes, Florida. Elizabeth Arden is a leading marketer and manufacturer of prestige beauty products, prominently led by the Red Door line of fragrances. The following table summarizes accounts and their balances (in thousands) reported by Elizabeth Arden, Inc., in a recent September 30 balance sheet.

Cash Accounts Receivable Inventories Other Current Assets	\$ 14,300 285,400 199,700 31,600	Short-term Notes Payable Accounts Payable Other Current Liabilities Long-term Debt	\$ 125,000 111,800 75,700 323,600
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Other Current Assets Property and Equipment	31,600 35,800	Long-term Debt Other Long-term Liabilities	323,600 10,100
Other Noncurrent Assets	224,100	Contributed Capital	101,800
		Retained Earnings	42,900

LO 2-2 Elizabeth Arden, Inc.



Assume the company entered into the following transactions during October (amounts in thousands):

- (a) Purchased an additional manufacturing facility at a cost of \$15,000 by issuing a promissory note that becomes payable in three years.
- (b) Used \$7,000 cash to repay one of the short-term loans.
- (c) Issued additional stock for \$20,000 cash contributed by stockholders.
- (d) Used cash to buy land for \$8,000.

## Required:

The controller at Elizabeth Arden has asked you to create a spreadsheet in which to display:

- a. The account balances at September 30.
- b. The effects of the four October transactions.
- c. Totals that combine the September 30 balances with the October transactions. You feel like you might be ready to tackle this assignment, but just to be sure, you e-mail your friend Owen for advice. Here's his reply.

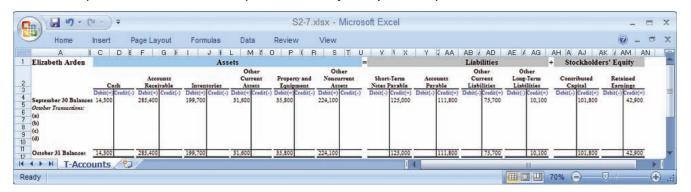
From: Owentheaccountant@yahoo.com

To: Helpme@hotmail.com

Cc: Subject: Excel Help

Wow, I can't believe you gave up that great job at EA. Good thing you landed another one so quickly!

1. My thinking is that you'll really impress your boss if you set up the spreadsheet to look like a bunch of T-accounts, one beside another. Use two columns for each balance sheet account (with the account name spanning the two columns) to make it look just like a T-account. You do remember how to use the cell merge command to make a header span two columns, right? If not, check the last e-mail I sent you. Here's a screenshot of how your worksheet might look just before you enter the October transactions.



- 2. See S1-7 for my cell merge advice. For extra spreadsheet skills, you might also try creating a balance sheet with cells that are linked to the corresponding cells in the T-accounts. To do this, open a worksheet in the same file as the T-accounts. Then click on a cell in the balance sheet worksheet where you want to import a number from the T-accounts, then type =, then click on the tab for the T-account worksheet, click on the cell with the total to be transferred, and then press enter. This links the cells so that any changes to the T-accounts automatically update the balance sheet. Also, Excel will let you hide row and column gridlines if you want. Just search Excel's help index for "hide gridlines."
- 3. I guess the only thing that's left is to remind you that to compute the ending balances in each T-account you have to add the increases to the beginning balance and subtract the decreases. So, to compute the totals for a particular account, your formula might look like = (SUM(C4:C9)-SUM(D5:D9)).
- 4. Oh yeah, when you're all done, don't forget to save the file using a name that uniquely identifies you.