Balance Sheet Homework Exercise (Key)

Use the following information to construct a balance sheet for Joe's Sporting Goods business for January 1, 2017.

First, classify these items in Current Assets, Non-Current Assets, Current Liabilities or Non-Current Liabilities.

CA = Current Asset   CL = Current Liability   NA = Not Applicable

NCA = Non-Current Asset   NCL = Non-Current Liability

CL $40,000 of loan payments due within the next 12 months

NCA $350,000 building & land for the store and parking lot

CL $50,000 of operating loan that is still owed to the bank – used to purchase inventory

NCL $150,000 of mortgage (loan) on the building that is due after the next year

CA $8,000 of cash in the cash register

NCA $85,000 of furniture, office equipment, and display racks

CA $80,000 of shoes, clothing, and sporting gear in inventory, ready to be sold.

NCL $45,000 of loans to buy the furniture & display racks that is not due within the next 12 months

CA $25,000 of accounts receivable from sales to a high school baseball team

CL $10,000 owed to an advertising company for a recent radio commercial

CL $7,500 of accrued interest (interest owed but not yet paid)

CL $3,000 of wages that are owed to the workers

CA $35,000 in the business checking account

Use the above assets and liabilities to create a balance sheet for Joe's Sporting Goods store. Use the attached blank balance sheet

Balance Sheet

Joe's Sporting Goods

Date: January 1. 2023

Assets
Liabilities

Current Assets		**Current Liabilities**	
Cash in Register	$8,000	Loan Payments Due	$40,000
Inventories	$80,000	Operating Loan	$50,000
Accounts Receivable	$25,000	Accounts Payable	$10,000
Checking Account	$35,000	Accrued Interest	$7,500
		Wages Payable	$3,000
Total Current Assets	$148,000	**Total Current Liabilities**	$110,500

Non-Current Assets		**Non-Current Liabilities**	
Building & Land	$350,000	Mortgage Remaining	$150,000
Furniture, Displays	$85,000	Furniture Loan Rem.	$45,000
Total Non-Current Assets	$435,000	**Total Non-Current Liabilities**	$195,000
		Total Liabilities	$305,500
		Net Worth (Owner's Equity)	$277,500
Total Assets	$583,000	**=Total Liabilities & Net Worth**	$583,000

From Joe's balance sheet:

Is Joe's business liquid or not liquid? How did you determine this?

Yes, it is liquid. The Current Assets ($148,000) are greater than the Current Liabilities ($110,500).

Is Joe's business solvent or insolvent?   How did you determine this?

It is solvent. The Total Assets are greater than the Total Liabilities. This means the Net Worth is greater than zero.

Assume Joe sells all of his business assets today and repays all of his liabilities. How much money will he have left over after all the liabilities are repaid? Where can you find this number on his balance sheet?

He will have approximately $277,500 left over. If he receives $583,000 from the sale of his assets and he pays all $305,500 of liabilities – he will have $277,500.

You can find this number by looking at the Net Worth on the balance sheet.