# Case 2 – Balance Sheet

Indicate on the chart, below, which of the following balance sheet categories are affected by the transactions: current assets (CA), non-current assets (NCA), current liabilities (CL), non-current liabilities (NCL), and equity (E). Assume the transactions relate to CPSI corp (pdf file attached named FS for cases 2 & 3).

Also, **optional**, please construct journal entries for each of the following hypothetical transactions during the next year.

**Example: Prepaid marketing expenses of $2,150.**

**Solution:**

**Prepaid expenses (CA↑) $2,150**

**Cash (CA↓) $2,150**

Transactions and journal entries:

1. Paid general and administrative costs of $7,100 that had been accrued as current liabilities.
2. Purchased $205 of short-term Investments.
3. Received $9,215 advances from customers for support and maintenance services to be delivered early next year.

1. Purchased $6,789 of inventories on account from vendors.

1. Purchased $45,611 of equipment by taking a long-term loan.

1. Collected $7,999 of short-term financing receivables.

1. Paid the vendor for inventory invoice (see transaction 4).

1. Paid $6,214 of accounts payable.

Effects on balance sheet (remember that A = L + E):

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **Transaction** | **Assets** | | **Liabilities** | | **SE** |
| **CA** | **NCA** | **CL** | **NCL** |
|  | **Example: Prepaid marketing expenses of $2,150** | **0** | **0** | **0** | **0** | **0** |
| 1) | Paid general and administrative costs of $7,100 that had been accrued as liabilities. | **↓$7100** | **0** | **↓$7100** | **0** | **0** |
| 2) | Purchased $205 of short-term Investments. | **0** | **0** | **0** | **0** | **0** |
| 3) | Received $9,215 advances from customers for support and maintenance services to be delivered early next year. | **↑$9215** | **0** | **↑$9215** | **0** | **0** |
| 4) | Purchased $6,789 of inventories on account from vendors. | **↑$6789** | **0** | **↑$6789** | **0** | **0** |
| 5) | Purchased $45,611 of equipment by taking a long-term loan. | **0** | **↑$45611** | **0** | **↑$45611** | **0** |
| 6) | Collected $7,999 of short-term financing receivables. | **0** | **0** | **0** | **0** | **0** |
| 7) | Paid the vendor for inventory invoice (see transaction 4). | **↓$6789** | **0** | **↓$6789** | **0** | **0** |
| 8) | Paid $6,214 of accounts payable. | **↓$6214** | **0** | **↓$6214** | **0** | **0** |

Part B

* The following three ratios are commonly used in financial statement analysis:
* Current ratio (CR) = Current Assets/Current Liabilities, a measure used to evaluate the firm’s liquidity.
* Return on Assets (ROA) = Net income/Total Assets, a measure used to evaluate the firm’s profitability independent of its capital structure.
* Debt to equity (D/E) = debt to total owners’ equity, a measure of leverage (debt is anything that bears interest).

Please record the effect on the numerator and denominator of each of the three ratios for the following 4 transactions. Please indicate +, - or 0.

|  |  |  |  |
| --- | --- | --- | --- |
| Event | CR | ROA | D/E |
| Paid general and administrative costs of $7,100 that had been accrued as liabilities. | - | 0 | 0 |
| - | - | 0 |
| Purchased $205 of short-term Investments. | 0 | 0 | 0 |
| 0 | 0 | 0 |
| Received $9,215 advances from customers for support and maintenance services to be delivered early next year. | + | 0 | 0 |
| + | + | 0 |
| Purchased $6,789 of inventories on account from vendors. | + | 0 | 0 |
| + | + | 0 |