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P5-2

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Matching Definitions with Balance Sheet–Related Terms

LO5-3

Following are terms related to the balance sheet that were discussed in Chapters 2 through 5. Match each definition with its related term by entering the appropriate letter in the space provided.

Terms	Definitions
___ (1) Capital in excess of par	A. Nearness of assets to cash (in time).
___ (2) Assets	B. Liabilities expected to be paid out of current assets normally within the next year.
___ (3) Retained earnings	C. All liabilities not classified as current liabilities.
___ (4) Book value	D. Total assets minus total liabilities.
___ (5) Other assets	E. Probable future economic benefits owned by the entity from past transactions.
___ (6) Shares outstanding	F. Debts or obligations from past transactions to be paid with assets or services.
___ (7) Shareholders' equity	G. Assets expected to be collected in cash within one year or the operating cycle, if longer.
___ (8) Liquidity	H. Assets that do not have physical substance.
___ (9) Normal operating cycle	I. Balance of the Common Stock account divided by the par value per share.
___ (10) Current assets	J. A miscellaneous category of assets.
___ (11) Current liabilities	K. Sum of the annual depreciation expense on an asset from its acquisition to the current date.
___ (12) Long-term liabilities	L. Asset offset account (subtracted from asset).
___ (13) Fixed assets	M. Accumulated earnings minus accumulated dividends.
___ (14) Liabilities	N. Property, plant, and equipment.
___ (15) Contra-asset account	O. Same as carrying value: cost less accumulated depreciation to date.
___ (16) Accumulated depreciation	P. Amount of contributed capital less the par value of the stock.
___ (17) Intangible assets	Q. The average cash-to-cash time involved in the operations of the business.
	R. None of the above.

P5-3

Preparing a Balance Sheet and Analyzing Some of Its Parts (AP5-1)

LO5-3



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Exquisite Jewelers is developing its annual financial statements for 2015. The following amounts were correct at December 31, 2015: cash, \$58,000; accounts receivable, \$71,000; merchandise inventory, \$154,000; prepaid insurance, \$1,500; investment in stock of Z corporation (long-term), \$36,000; store equipment, \$67,000; used store equipment held for disposal, \$9,000; accumulated depreciation, store equipment, \$19,000; accounts payable, \$52,500; long-term note payable, \$42,000; income taxes payable, \$9,000; retained earnings, \$164,000; and common stock, 100,000 shares outstanding, par value \$1.00 per share (originally sold and issued at \$1.10 per share).

Required:

1. Based on these data, prepare a December 31, 2015, balance sheet. Use the following major captions (list the individual items under these captions):
 - a. Assets: Current Assets, Long-Term Investments, Fixed Assets, and Other Assets.
 - b. Liabilities: Current Liabilities and Long-Term Liabilities.
 - c. Stockholders' Equity: Contributed Capital and Retained Earnings.
2. What is the net book value of the store equipment? Explain what this value means.

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CASES AND PROJECTS

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Annual Report Cases

CP5-1

Finding Financial Information

LO5-2, 5-3, 5-4

AMERICAN EAGLE
OUTFITTERS, INC.



Refer to the financial statements of American Eagle Outfitters given in Appendix B at the end of this book. At the bottom of each statement, the company warns readers to “Refer to Notes to Consolidated Financial Statements.” The following questions illustrate the types of information that you can find in the financial statements and accompanying notes. (**Hint:** Use the notes.)

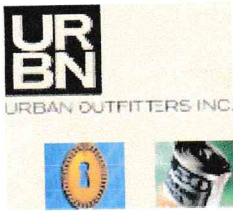
Required:

1. What items were included as noncurrent assets on the balance sheet?
2. How much land did the company own at the end of the most recent reporting year?
3. What portion of current liabilities were “Unredeemed store value cards and gift certificates” during the current year?
4. At what point were website sales recognized as revenue?
5. The company reported cash flows from operating activities of \$239,256,000. However, its cash and cash equivalents increased by \$51,952,000 for the year. Explain how that happened.
6. What was the highest stock price for the company during fiscal 2011? (**Note:** Some companies will label a year that has a January year-end as having a fiscal year-end dated one year earlier. For example, a January 2012 year-end may be labeled as Fiscal 2011 since the year actually has more months that fall in the 2011 calendar year than in the 2012 calendar year.)
7. Calculate the company's ROA for fiscal 2011 and 2010. Did it increase or decrease? How would you expect the change in ROA to be reflected in the company's share price?

CP5-2

Finding Financial Information

LO5-2, 5-3



Refer to the financial statements of Urban Outfitters given in Appendix C at the end of this book. At the bottom of each statement, the company warns readers that “The accompanying notes are an integral part of these financial statements.” The following questions illustrate the types of information that you can find in the financial statements and accompanying notes. (**Hint:** Use the notes.)

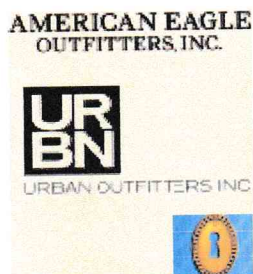
Required:

1. What subtotals does Urban Outfitters report on its income statement?
2. The company spent \$190,010,000 on capital expenditures (property, plant, and equipment) and \$169,467,000 purchasing investments during the most recent year. Were operating activities or financing activities the major source of cash for these expenditures?
3. What was the company's largest asset (net) at the end of the most recent year?
4. How does the company account for costs associated with developing its websites?
5. Over what useful lives are buildings depreciated?
6. What portion of gross “Property and Equipment” is composed of “Buildings”?
7. Compute the company's gross profit percentage for the most recent two years. Has it risen or fallen? Explain the meaning of the change.

CP5-3

Comparing Companies within an Industry

LO5-4



Refer to the financial statements of American Eagle Outfitters (Appendix B) and Urban Outfitters (Appendix C) and the Industry Ratio Report (Appendix D) at the end of this book.

Required:

1. Compute return on assets for the most recent year. Which company provided the highest return on invested capital during the current year?
2. Use ROA profit driver analysis to determine the cause(s) of any differences. How might the ownership versus the rental of property, plant, and equipment affect the total asset turnover ratio?
3. Compare the ROA profit driver analysis for American Eagle Outfitters and Urban Outfitters to the ROA profit driver analysis for their industry. Where does American Eagle Outfitters

outperform or underperform the industry? Where does Urban Outfitters outperform or underperform the industry?

