

Casey Corporation
A Case in Financial Statement Preparation
(08.2009)

The following financial statements were prepared by the bookkeeper of the Casey Corporation:

Casey Corporation
Balance Sheet
December 31,
(000's omitted)

Assets	20X6	20X5
Cash	\$ 8,460	\$5,000
Accounts Receivable (net of allowance for Uncollectible Accounts; 20X6, \$800; 20X5, \$200)	11,500	6,000
Inventories	12,500	6,250
Prepaid Expenses	6,500	2,500
Temporary investments-trading securities	<u>8,000</u>	<u>4,000</u>
Total Current Assets	<u>46,960</u>	<u>23,750</u>
Property, Plant and Equipment:		
Land	20,500	14,250
Buildings	35,500	27,000
Machinery & Equipment	<u>39,000</u>	<u>33,000</u>
	95,000	74,250
Less: Accumulated Depreciation	<u>25,000</u>	<u>22,000</u>
	<u>70,000</u>	<u>52,250</u>
Total Assets	<u>\$116,960</u>	<u>\$76,000</u>
Liabilities		
Income taxes payable	\$ 1,500	\$ 2,000
Current Liabilities	3,000	7,500
Long-term Debt - Debenture Bonds	10,000	20,000
Convertible Bonds (note 9)	<u>10,000</u>	<u>-0-</u>
Total Liabilities	<u>24,500</u>	<u>29,500</u>
Stockholders' Equity		
Preferred stock, par \$50, 6%; each share convertible into 10 shares of common stock; 200,000 shares authorized, 150,000 shares outstanding	\$ 7,500	\$ 7,500
Premium on Preferred stock	4,500	4,500
Common stock, no par, authorized 5,000,000 shares; issued 2,000,000 shares at 12/31/X6, 1,600,000 at 12/31/X5	<u>35,000</u>	<u>25,000</u>
Total Contributed Capital	47,000	37,000
Retained Earnings	<u>45,460</u>	<u>9,500</u>
Total Stockholders' Equity	<u>92,460</u>	<u>46,500</u>
Total Liabilities and Stockholders' Equity	<u>\$116,960</u>	<u>\$76,000</u>

Casey Corporation

Income Statement
Years Ended December 31,
(000's omitted)

	<u>20X6</u>	<u>20X5</u>
Net Sales	\$380,000	290,000
Cost of Goods Sold (includes depreciation)	<u>200,000</u>	<u>160,000</u>
Gross Margin	<u>180,000</u>	<u>130,000</u>
Selling Expenses	60,000	34,000
Administrative and General Expenses	<u>40,000</u>	<u>36,000</u>
Total Expenses	<u>100,000</u>	<u>70,000</u>
Income from Operations	80,000	60,000
Provision for Income Taxes	<u>32,000</u>	<u>24,000</u>
Income before extraordinary item	48,000	36,000
Extraordinary item:		
Loss on retirement of bonds, net of tax	<u>360</u>	<u> </u>
Net Income	<u>\$47,640</u>	<u>\$36,000</u>

Casey Corporation

Retained Earnings Statement
For the Years Ended December 31,
(000's omitted)

	<u>20X6</u>	<u>20X5</u>
Retained Earnings, January 1	\$9,500	\$ 2,000
Add: Net Income for the Year	<u>47,640</u>	<u>36,000</u>
Subtotal	57,140	38,000
Less: Dividends	(9,280)	(28,500)
Loss on Destruction of Possum Trot Warehouse	<u>(2,400)</u>	<u> </u>
Retained Earnings, December 31	<u>\$45,460</u>	<u>\$9,500</u>

During the course of the audit of Casey Corporation, the following items were discovered:

1. In 20X6, Casey suffered a loss of \$400,000 when its only plant was relocated in New York from Louisville, Kentucky. This relocation was the first for the firm and is not expected to reoccur in the foreseeable future. The loss has been reported on the 20X6 income statement as part of General and Administrative expenses.

2. On August 1, 20X6, management decided to discontinue its Sluggo division which produces baseball bats. Operations will cease on February 28, 20X7. The firm expects to sell substantially all of that division's assets by March 1, 20X7. The liabilities of the division will be retained by Casey Corporation. Other relevant information about the division includes:

Plant & Equipment Assets:

	(000's omitted)		
	Equipment	Buildings	Land
Cost.	\$6,000	\$10,000	\$2,000
Depreciation per year.. . . .	100	160	---
Book value at 08/01/06.	3,800	5,800	2,000
Estimated Sales Price	2,000	2,700	2,200
Related tax (benefit) on the disposal.	(720)	(1,240)	80

Operations:

	1/01/X6- 12/31/X6	20X5
Sales.. . . .	\$ 46,000	\$ 9,000
Cost of goods sold.	30,000	6,000
Selling expenses.	20,000	5,000
Administrative expenses.. . . .	12,000	3,000
Related tax benefit.. . . .	(6,400)	(2,000)

Remaining assets, other than plant and equipment, on:

	December 31,	
	20X6	20X5
Cash.	\$ --	\$ 10
Accounts receivable.. . . .	50	238
Inventories.. . . .	60	150
Other Assets.	--	20
	<u>\$ 110</u>	<u>\$ 418</u>

Accounting recognition has not been given to any of the effects of the disposal of the business segment.

3. On June 5, 20X6, The Russian Spy satellite crashed and destroyed the Company's Possum Trot Warehouse facility resulting in a loss of \$4,000,000. This amount was charged to Retained earnings during 20X6, net of the related tax benefit. The Warehouse had a cost of \$16,000,000 and accumulated depreciation at the time of destruction of \$12,000,000.
4. In 20X6, Casey Corporation changed its estimate of bad debts from 3% of net sales to 2% of net sales; bad debts have already been recorded for 20X6 on the basis of 2% and included in Selling Expenses. The 20X5 selling expense includes bad debt expense at the 3% estimate.
5. Casey began depreciating certain depreciable assets using the straight-line method during 20X6. Prior to that time, these assets (with a total cost of \$5,000,000) were depreciated using the double-declining balance method. The assets have a salvage value of \$200,000 and estimated lives of eight years. They were acquired in 20X3. None of these assets are part of the disposed division. Depreciation has been recorded for 20X6 on the double-declining balance method. The company follows a policy of taking a full year's depreciation in the year of acquisition and none in the year of disposal. The double-declining balance method was continued for tax purposes.

6. The company decided at the beginning of 20X6 to adopt the FIFO method of inventory valuation. Casey had used the LIFO method for financial and tax reporting since its inception but has maintained records that are adequate to determine the results had the FIFO method been applied in all years. No adjustment to reflect this change has been made in 20X6 or prior. The following information was determined from those records:

Date	inventory determined by		cost of goods sold determined by	
	LIFO method	FIFO Method	LIFO method	FIFO Method
01/01/20X5	\$ 5,800	\$ 7,200	\$ –	\$ –
12/31/20X5	6,250	9,650	160,000	158,000
12/31/20X6	12,500	17,770	200,000	198,130

7. The tax rate remained at 40% during 20X6. Interperiod tax allocation procedures should be applied where applicable.
8. The company issued 400,000 shares of common stock on October 1, 20X6 at \$20 per share.
9. On April 1, 20X6, the company issued 10,000,000 6%, \$1,000 par value convertible bonds. The bonds were sold at par and each bond is convertible into 90 shares of Casey Common Stock. Executive stock options for 600,000 shares of common stock were issued on January 1, 20X6. The average market price for the Casey common stock during 20X6 was \$30. The option price is \$18. The preferred stock was issued at \$80 per share.
10. On October 1, 20X6, \$10,000,000 of the Debenture Bonds were purchased in the open market and retired. The purchase price was 106. The difference between carrying amount of the debt and the amount paid to retire the debt was charged against income in 20X6, net of the related tax benefit, as an extraordinary item.

Required:

Based on the above information, prepare the comparative financial statements (20X5) and (20X6) for the Casey Corporation. All financial statements necessary for compliance with generally accepted accounting principles are required. All footnotes required by the appropriate section(s) of the FASB codification are to be presented. The income statement should be prepared in multiple step format and the balance sheet should be classified. Also, all necessary pro-forma presentations should be included. A spreadsheet program (Lotus, Excel, Quattro Pro) should be utilized for each year to facilitate your adjustments and recalculations. See the instructions for setting up the spreadsheet for this assignment.

Be sure all of the numbers are *internally consistent*.

Any supporting tests and calculations should be included as supplemental data. While these are not required in the financial statements or notes, they are part of this assignment.

The financial statements and the footnotes required to support the items appearing in them should be printed in good form. The worksheets, tests and calculations should also be presented in good form.

The appearance of your computer generated output must be in good form. *Neatness is of utmost importance and will be a significant factor in determining your grade on this project.*