# Problem 1

Best Electronics operates a retail electronics company. Examine the following items and prepare the current liability section of the company's December 31, 20X8, balance sheet.

The beginning of year accounts payable was $150,000. Purchases on trade accounts during the year were $975,000, and payments on account were $915,000.

The company incurs substantial costs for electricity to run its stores and air conditioning systems. As of December 31, 20X8, it is estimated that $82,500 of electricity has been used, although the monthly billing for December has not yet been received.

Best Electronics sells service plans for as low as $25 per month. However, it requires its customers to prepay in 6-month increments. As of the end of the year, $562,500 had been collected for 20X9 web hosting plans.

Best Electronic's service plans are subject to sales taxes, and Best collected $97,500 during the year. All of these amounts have been remitted to taxing authorities, with the exception of $7,500 that is due to be paid in January, 20X9.

The company has total bank loans of $2,250,000. This debt bears interest at 6%, payable monthly. As of December 31, 20X8, all interest had been paid, with the exception of accrued interest for the last half of December.

The company's bank loans ($2,250,000) are all due on June 30, 20X9. However, Best Electronics has a firm lending agreement with the bank to renew and extend $1,500,000 of this amount on a 5-year basis. The company intends to exercise this renewal option, but is not yet sure about the final disposition of the remainder.

## Worksheet 1

| | | |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| | $ - | |
| | - | |
| | - | |
| | - | |
| | - | |
| | - | $ - |

Supporting calculations:

## Solution 1

| | | | | |
|---|---|---|---|---|
| **Liabilities** | | | | |
| **Current liabilities** | | | | |
| Accounts payable | $ | 210,000 | | |
| Utilities payable | | 82,500 | | |
| Unearned revenue | | 562,500 | | |
| Sales tax payable | | 7,500 | | |
| Interest payable | | 5,625 | | |
| Current portion of loan payable | | 750,000 | $ | 1,618,125 |

Supporting calculations:

Accounts payable ($150,000 + $975,000 – $915,000 = $210,000)

Interest payable ($2,250,000 × 6% × 15/360 = $5,625)