

**ACCOUNTING FOR LAWYERS:
APEX Corporation Assignment**

In this assignment, assume that you are the attorney for an individual who has received an offer to join Apex Corporation, a local manufacturing firm. The offer is for a management position with salary and benefits that your client finds attractive. Before accepting the offer, however, your client has asked you to take a look at the firm's most recent financial statements (attached) and give your assessment of the firm's financial position.

In a preliminary review of the financial statements, you have already discovered that Apex Corp.'s financial statements from December 31, 1999, through December 31, 2000, were exactly the same as the financial statements of the hypothetical firm discussed in section 2 of Chapter Four. The only new information in the Apex Corp. financial statements relates to the period from December 31, 2000, through December 31, 2001.

For purposes of this assignment, you should focus your attention on Apex Corp.'s financial performance during 2001 and its financial position as of December 31, 2001. In particular, please calculate the measures of financial performance described in section 6 of Chapter Four, and then consider the most important ways in which the firm's financial position changed over the course of 2001. To the extent relevant, you may wish to make comparisons between Apex Corp.'s financial performance in 2001 and its performance in the previous year. What advice would you give your client?

Good luck.

Apex Corporation

Balance Sheets

(For December 31, 1999, December 31, 2000, and December 31, 2001)

Assets

	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 1999
Current Assets			
Cash	\$112,700	\$565,807	\$750,000
Accounts Receivable	\$1,550,000	\$1,000,000	\$825,000
Unbilled Accounts Receivable	\$2,250,000	-	-
Inventory (LIFO)	\$250,000	\$1,690,000	\$1,250,000
Prepaid Expenses	<u>\$95,000</u>	<u>\$160,000</u>	<u>\$185,000</u>
Total Current Assets	\$4,257,700	\$3,415,807	\$3,010,000
Property, Plant, Equipment & Land			
	\$2,500,000	\$3,000,000	\$2,250,000
Accumulated Depreciation	<u>(\$1,060,000)</u>	<u>(\$800,000)</u>	<u>(\$540,000)</u>
Cost Less Depreciation	\$1,440,000	\$2,200,000	\$1,710,000
TOTAL ASSETS	\$5,697,700	\$5,615,807	\$4,720,000

Liabilities and Owners' Equity

	Dec. 31, 2001	Dec. 31, 2000	Dec. 31, 1999
Current Liabilities			
Accounts Payable	\$750,400	\$640,000	\$535,000
Accrued Expenses	\$260,000	\$257,167	\$197,500
Income Tax Payable	\$181,300	\$23,940	\$36,000
Short-term Notes Payable	<u>\$425,000</u>	<u>\$625,000</u>	<u>\$600,000</u>
Total Current Liabilities	\$1,616,700	\$1,546,107	\$1,368,500
Long Term Notes Payable	<u>\$850,000</u>	<u>\$750,000</u>	<u>\$600,000</u>
TOTAL LIABILITES	\$2,466,700	\$2,296,107	\$1,968,500
Owners' Equity			
Capital Stock (200,000 shares at 12/31/99 and 12/31/98 and 195,000 shares at 12/31/97)	\$775,000	\$775,000	\$725,000
Retained Earnings	<u>\$2,456,000</u>	<u>\$2,544,700</u>	<u>\$2,026,500</u>
Total Owners' Equity	\$3,231,000	\$3,319,700	\$2,751,500
TOTAL LIABILITIES & OWNERS' EQUITY	\$5,697,700	\$5,615,807	\$4,720,000

Apex Corporation		
Income Statement		
(2000 and 2001)		
	2001	2000
Sales Revenue	\$13,400,000	\$10,400,000
Cost of Goods Sold Expense	(\$8,150,000)	(\$6,760,000)
Gross Margin	\$5,250,000	\$3,640,000
Operating Expenses	(\$3,620,000)	(\$2,080,000)
Depreciation Expenses	(\$260,000)	(\$260,000)
Operating Earnings	\$1,370,000	\$1,300,000
Extraordinary Gain from Sale of Land	\$450,000	—
Interest Expense	(\$210,000)	(\$103,000)
Earnings before Income Tax	\$1,610,000	\$1,197,000
Income Tax Expense	(\$590,000)	(\$478,800)
Net Income	\$1,020,000	\$718,200

Apex Corporation			
Statements of Cash Flow			
(2000 and 2001)			
		2001	2000
Cash Flows from Operating Activities			
Net Income		\$1,020,000	\$718,200
Accounts Receivable Increase	(\$550,000)		(\$175,000)
Unbilled Account Receivable Increases	(\$2,250,000)		—
Inventory Decrease (Increase)	\$1,440,000		(\$440,000)
Prepaid Expenses Decrease	\$65,000		\$25,000
Depreciation Expense	\$260,000		\$260,000
Accounts Payable Increase	\$110,400		\$105,000
Accrued Expenses Increase	\$2,833		\$59,667
Income Tax Payable Increase (Decrease)	\$157,360		(\$12,060)
Cash Flow Adjustments to Net Income		(\$764,407)	(\$177,393)
Cash Flow from Operating Activities		\$255,593	\$540,807
Cash Flows from Investing Activities			
Sale (Purchase) of PP&E		\$500,000	(\$750,000)
Cash Flows from Financing Activities			
Short-Term Debt Borrowing (Repayment)	(\$200,000)		\$25,000
Long-Term Debt Borrowing	\$100,000		\$150,000
Capital Stock Issue	\$0		\$50,000
Dividends Paid Stockholders	(\$1,108,700)		(\$200,000)
Cash Flow Adjustments to Net Income		(\$1,208,700)	\$25,000
Increase (Decrease) in Cash during Year		(\$453,107)	(\$184,193)