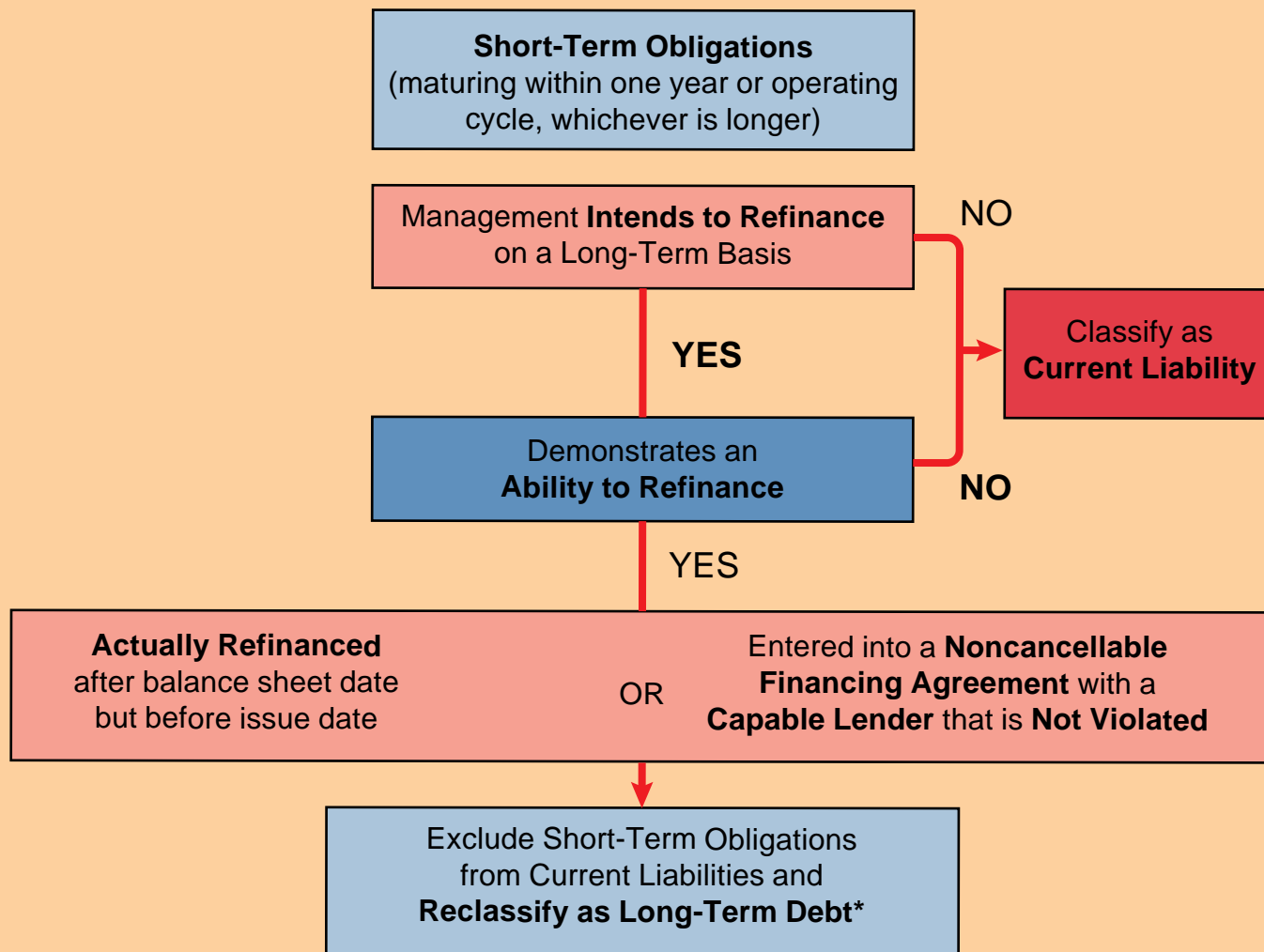


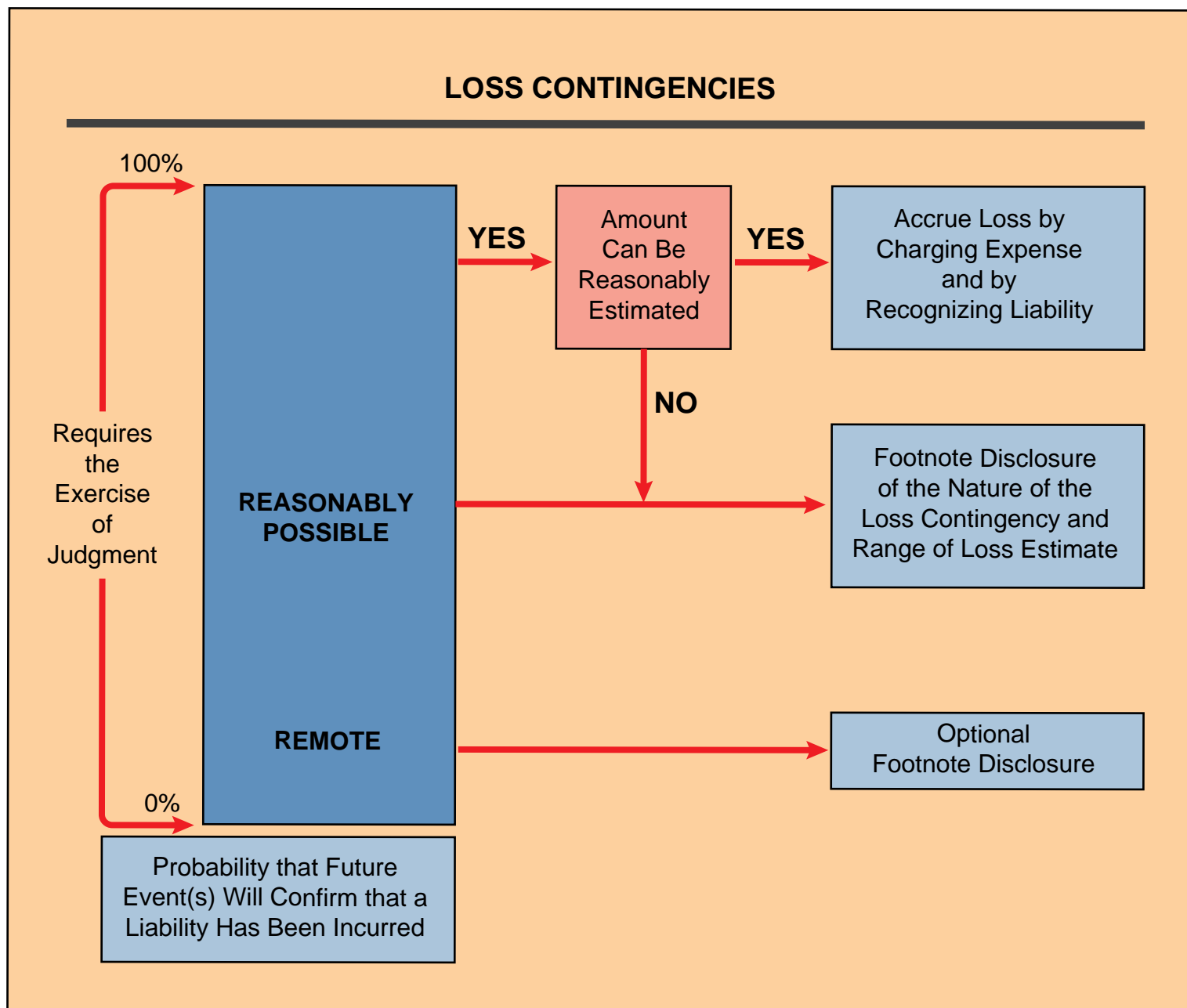
# ILLUSTRATION 13-1

## CLASSIFICATION OF SHORT-TERM OBLIGATIONS EXPECTED TO BE REFINANCED



\* In the case of actual refinancing, reclassification is limited to the proceeds from the issuance of long-term long-term securities.  
In the case of a financing agreement, reclassification is limited to the amount available for refinancing or a reasonable estimate of the amount available adjusted for any limitations or restrictions on the amount available for refinancing.

## ILLUSTRATION 13-2 LOSS CONTINGENCIES



## ILLUSTRATION 13-3

### ACCOUNTING TREATMENT OF LOSS CONTINGENCIES

Loss Related to	Usually Accrued	Not Accrued	Maybe Accrued*
1. Collectibility of receivables.	x		
2. Obligations related to product warranties and product defects.	x		
3. Premiums offered to customers.	x		
4. Risk of loss or damage of enterprise property by fire, explosion, or other hazards.		x	
5. General or unspecified business risks.		x	
6. Risk of loss from catastrophes assumed by property and casualty insurance companies including re-insurance companies.		x	
7. Threat of expropriation of assets.			x
8. Pending or threatened litigation.			x
9. Actual or possible claims and assessment.**			x
10. Guarantees of indebtedness of others.			x
11. Obligations of commercial banks under "standby letter of credit."			x
12. Agreements to repurchase receivables (or the related property) that have been sold.			x
* Should be accrued when both criteria are met (probable and reasonably estimable).			
** Estimated amounts of losses incurred prior to the balance sheet date but settled subsequently should be accrued as of the balance sheet date.			

## ILLUSTRATION 13-4

### CURRENT AND ACID-TEST RATIOS

$$\text{Current ratio} = \frac{\text{Current assets}}{\text{Current liabilities}}$$

$$\text{Acid-test ratio} = \frac{\text{cash} + \text{marketable securities} + \text{net receivables}}{\text{current liabilities}}$$

Example (in millions of dollars):

Cash	\$5.5	Current liabilities	\$13.3
Marketable securities	3.0		
Receivables (net)	10.4		
Inventories	14.8		
Prepaid expenses	6.2		

$$\text{Current ratio} = \frac{\$5.5 + 3.0 + 10.4 + 14.8 + 6.2}{\$13.3}$$

$$= \frac{\$39.9}{\$13.3} = \mathbf{3.0 \text{ times}}$$

$$\text{Acid-test ratio} = \frac{\$5.5 + 3.0 + 10.4}{\$13.3}$$

$$= \frac{\$18.9}{\$13.3} = \mathbf{1.42 \text{ times}}$$

## ILLUSTRATION 13-5

### COMPUTATION OF EMPLOYEES' BONUSES

1. On Income after the bonus, but before taxes:

$$B = b(I - B) \quad \text{where: } B = \text{bonus}$$

$$b = \text{bonus rate}$$

$$I = \text{Income before bonus}$$

2. On Income after taxes, but before bonus:

$$B = b(I - T) \quad \text{where: } T = \text{taxes}$$

$$T = t(I - B) \quad t = \text{Tax rate}$$

3. On Income after bonus and taxes:

$$B = b(I - B - T)$$

$$T = t(I - B)$$

#### Example:

Income before bonus	\$300,000
Bonus rate	20%
Tax rate	30%

1.  $B = .20(\$300,000 - B)$   
 **$B = \$250,000$**

2.  $B = .20(\$300,000 - T)$   
 $T = .30(\$300,000 - B)$

$$B = .20[\$300,000 - .30(\$300,000 - B)]$$

$$= .20(300,000 - 90,000 + .3B)$$

$$= 42,000 + .06B$$

$$= \mathbf{\$44,680.85}$$

3.  $B = .20(\$300,000 - B - T)$   
 $T = .30(\$300,000 - B)$

$$B = .20[\$300,000 - B - .30(\$300,000 - B)]$$

$$= .20(300,000 - B - 90,000 + .3B)$$

$$= 42,000 - .14B$$

$$= \mathbf{\$36,842.11}$$