

Presented below is the unaudited balance sheet as of December 31, 1989, prepared by the bookkeeper of Zues Manufacturing Corp.

*Zues Manufacturing Corp.*  
**BALANCE SHEET**  
*For the Year Ended December 31, 1989*

<u>Assets</u>	
Cash	\$ 225,000
Accounts receivable (net)	345,700
Inventories	560,000
Prepaid income taxes	40,000
Investments	57,700
Land	450,000
Building	1,750,000
Machinery and equipment	1,964,000
Goodwill	37,000
Total assets	<u>\$5,429,400</u>
<u>Liabilities &amp; Stockholders' Equity</u>	
Accounts payable	\$ 133,800
Mortgage payable	900,000
Notes payable	500,000
Lawsuit liability	80,000
Income taxes payable	61,200
Deferred tax liability	28,000
Accumulated depreciation	420,000
Total liabilities	<u>\$2,123,000</u>
Common stock, \$50 par: 40,000 shares issued	2,231,000
Retained earnings	1,075,400
Total stockholders' equity	<u>\$3,306,400</u>
Total liabilities & stockholders' equity	<u>\$5,429,400</u>

Your firm has been engaged to perform an audit, during which the following data are found:

1. Checks totaling \$14,000 in payment of accounts payable were mailed on December 30, 1989 but were not recorded until 1990. Late in December 1989, the bank returned a customer's \$2,000 check marked "NSF" but no entry was made. Cash includes \$100,000 restricted for building purposes.
2. Included in accounts receivable is a \$30,000 note due on December 31, 1992 from Zues' president.
3. During 1989, Zues purchased 500 shares of common stock of a major corporation that supplies Zues with raw materials. Total cost of this stock was \$51,300, and market value on December 31, 1989 was \$47,000. The decline in market value is considered temporary. Zues plans to hold these shares indefinitely.

4. Treasury stock was recorded at cost when Zues purchases 200 of its own shares for \$32 per share in May 1989. This amount is included in investments.
5. On December 30, 1989, Zues borrowed \$500,000 from a bank in exchange for a 10% note payable, maturing December 30, 1994. Equal principal payments are due December 30 of each year, beginning in 1990. This note is collateralized by a \$250,000 tract of land acquired as a potential future building site which is included in land.
6. The mortgage payable required \$50,000 principal payments, plus interest, at the end of each month. Payments were made on January 31 and February 30, 1990. The balance of this mortgage was due June 30, 1990. On March 1, 1990, prior to issuance of the audited financial statements, Zues consummated a noncancellable agreement with the lender to refinance this mortgage. The new terms require \$100,000 annual principal payments, plus interest on February 28 of each year, beginning in 1991. The final payment is due February 28, 1998.
7. The lawsuit liability will be paid in 1990.
8. Zues elected early application of FASB Statement No. 109, *Accounting for Income Taxes*.

The following is an analysis of the deferred tax liability at December 31, 1989:

Deferred taxes related to depreciation	\$48,000
Deferred taxes related to a lawsuit liability	(20,000)
Net deferred tax liability	<u>\$28,000</u>

\$25,000 of the deferred taxes related to depreciation will reverse in 1990.

9. The current income tax expense reported in Zues' 1989 income statement was \$61,200.
10. The company was authorized to issue 100,000 shares of \$50 par value common stock.

**Required:**

Prepare a corrected classified balance sheet as of December 31, 1989. This financial statement should include a proper heading, format and necessary descriptions.