
Appendix F: Recasting Exercise: Beltram Motors

This exercise was developed to give you additional practice in recasting before taking the CBI exam.

The owner of Beltram Motors wishes to sell his business. The proposed terms of sale are that the Seller will keep all of the cash, and that all of the remaining assets will be sold free and clear to the Buyer. Buyer will receive a guarantee of collection on the accounts receivable and a 10% discount on the transferred accounts for his collection efforts. An independent appraisal of the Fair Market Value (FMV) of the equipment is \$92,000. The Buyer needs to take home a fair wage and estimates that would be \$105,000 plus benefits. He has shown you a wage survey of similar businesses as justification. Payroll taxes in this state are right at 10%. The Seller pays half of his health insurance, \$2,100, through the business last year. In addition approximately \$1,000 of the travel and entertainment expense is for personal items.

The Buyer will need to provide a rent deposit of \$2,500 plus last months rent and will get a new lease. Rent for the existing space is 20% over market and there are at least 3 vacant garages available of r rent at the present. The Seller will collect his deposit of \$2,000 at the closing.

The Seller pays his brother \$20 per hour cash for work he does evenings and weekends unreported, (off the books). Last year that was approximately 1,000 hours of billed labor to customers. The inventory of tires and parts is estimated to be \$8,000 higher than shown on the books. The Seller explained that he didn't have time to take a good inventory and besides a lower inventory this year saved him some taxes.

Insurance expenses in the business include \$1100 for the Seller's son's car. Half of the auto expenses are for personal use of the pickup truck.

Problem:

Recast the financial statements provided to determine the Discretionary Earnings and the Fair Market Value of the assets being sold.

- Using the Seller Interview Notes determine what if any adjustments need to be made.
- Enter Letter of Note on the appropriate lines, enter adjustments in adjustment column, and calculate the individual line balances.
- Some adjustments will be needed for Items which are part of definitions of Discretionary Earnings and Market Value of Assets to be Sold.

Balance Sheet - Beltram Motors, Inc.

As of June 30, 20xx

	Owner's Statement	#	Note	Adjustments	Adjusted Balances
ASSETS					
Current Assets					
Cash	\$5,100	[1]			
Accounts Receivable	\$41,000	[2]			
Prepaid Expense	\$2,000	[3]			
Inventory	\$10,000	[4]			
Total Current Assets	\$58,100				
Fixed Assets					
Leasehold Improvements	\$5,000	[5]			
FFE	\$150,000	[6]			
Less Accum Depreciation	\$92,000	[7]			
Net Fixed Assets	\$63,000				
TOTAL ASSETS	\$121,100				
LIABILITIES					
Current Liabilities					
Accounts Payable	\$20,000	[9]			
Accrued Expenses	\$7,000	[10]			
Total Current Liabilities	\$27,000				
Long Term Liabilities					
Notes Payable	\$52,000	[11]			
Loan on Condo	\$30,000	[12]			
Total Long Term Liabilities	\$82,000				
TOTAL LIABILITIES	\$109,000				
STOCKHOLDERS EQUITY	\$12,100				
TOTAL LIABILITIES & EQUITY	\$121,100				
Market Value of Assets Sold					

Beltram Motors, Inc.
Income Statement
For 12 Months Ending June 30, 20xx

	Owner's Statement	–	Note	Adjustments	Adjusted Amounts
Sales	\$700,000		[13]		
Cost of Sales	\$400,000		[14]		
Gross Profit	\$300,000				
 Operating Expenses					
Owner's Salary	\$70,000		[15]		
Other Wages	\$100,000		[16]		
Payroll Taxes	\$17,000		[17]		
Interest	\$5,000		[18]		
Travel & Entertainment	\$2,500		[19]		
Dues & subscriptions	\$500		[20]		
Employee Benefits (inc. Med Insurance)	\$4,200		[21]		
Rent	\$34,000		[22]		
Legal & Accounting	\$2,200		[23]		
Advertising	\$900		[24]		
Insurance	\$3,400		[25]		
Bad Debt	\$0		[26]		
Auto Expense	\$4,500		[27]		
Depreciation	\$30,000		[28]		
Utilities	\$1,250		[29]		
Miscellaneous	\$7,550		[30]		
 Total Operating Expenses	 \$283,000				
 Net Income Before Tax	 \$17,000				
 Discretionary Earnings					