LAMROCK LIMITED

Elizabeth M. A. Grasby revised this case (originally Clark Dairy Ltd.) solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Tom Baxter, sole owner and general manager of Lamrock Ltd., knew that he was in trouble. Sally Hedger, the company's accountant, had slammed the door and walked out of the building yesterday afternoon. Hedger had a temper that Baxter had observed in the past, but nothing like the explosion that occurred yesterday. When Hedger did not show up this morning, Baxter was pretty sure that he had seen the last of her for this week.

Unfortunately, Baxter had to take a set of Lamrock Ltd.'s unaudited financial statements for review to the bank tomorrow. This review was one of the conditions the bank had put in place to maintain Lamrock's loan agreement. This was Lamrock's fourth year in business, and Baxter relied heavily on the bank's willingness to finance the firm's capital investments needed for operations. He did not want to postpone the bank meeting for fear that the loans manager would become concerned about Lamrock's outstanding loans.

For several reasons, Baxter did not want to bring in another accountant to prepare the statements: the accountant would question every number; it was highly unlikely that he could hire an accountant on such short notice; and the cost would be prohibitive. Consequently, since Hedger had left a printout with the names of the accounts and their final balances for the fiscal year on her desk (see Exhibit 1), Baxter decided to put into practice what he learned from his basic accounting course five years ago. He planned to organize the accounts and their balances and prepare the firm's income statement, statement of retained earnings and the balance sheet[1] for the fiscal year ending March 31, 2014. Since Hedger had not yet done March's bank reconciliation and Baxter did not have the necessary information to do one, he would "plug" for the cash balance on the company's balance sheet.

[1] *May also be called the Statement of Financial Position.*

Exhibit 1

ACCOUNT NAMES AND BALANCES AT MARCH 31, 2014

Depreciation expense – warehouse and equipment	$ 60,000
Cash	?
Retained Earnings April 1, 2013	174,000
Inventory, March 31, 2014	68,500
Selling Expenses	161,000
Inventory, April 1, 2013	87,000
Income tax expense (estimate)	38,000
Mortgage Loan – 6% (due 2020)	400,000
Sales	1,193,500
Land	565,000
Other Expenses	39,600
Common stock	250,000
Prepaid expenses	16,800
Loans – Equipment (due 2021)	550,000
Dividends	170,000
Accounts receivable	92,600
Interest expense	79,500
Warehouse and equipment at cost	1,200,000
Accumulated depreciation – warehouse and equipment, April 1, 2013	180,000
Bank loan – demand note	375,000
Taxes payable	12,000
Accounts payable	67,200
Other current liabilities	43,600
Goodwill	12,000
Administrative expenses	87,200
Purchases	595,000
Trading Investments (short-term)	50,000