

Problem 17-3A

Transactions, working capital, and liquidity ratios

Plum Corporation began the month of May with \$700,000 of current assets, a current ratio of 2.50:1, and an acid-test ratio of 1.10:1. During the month, it completed the following transactions (the company uses a perpetual inventory system).

- May 2 Purchased \$50,000 of merchandise inventory on credit.
8 Sold merchandise inventory that cost \$55,000 for \$110,000 cash.
10 Collected \$20,000 cash on an account receivable.
15 Paid \$22,000 cash to settle an account payable.
17 Wrote off a \$5,000 bad debt against the Allowance for Doubtful Accounts account.
22 Declared a \$1 per share cash dividend on its 50,000 shares of outstanding common stock.

Work May 22: Current ratio, 2.19; Acid-test ratio, 1.11

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- 26 Paid the dividend declared on May 22.
- 27 Borrowed \$100,000 cash by giving the bank a 30-day, 10% note.
- 28 Borrowed \$80,000 cash by signing a long-term secured note.
- 29 Used the \$180,000 cash proceeds from the notes to buy new machinery.

May 29: Current
ratio, 1.80; Working capital
\$325,000

Required

Prepare a table showing Plum's (1) current ratio, (2) acid-test ratio, and (3) working capital after each transaction. Round ratios to two decimals.