Some of you may remember our case study from last quarter: Lions and Tigers. Below I have listed the basis facts. We are picking back up with the case study in January of 2012. We will play the role of their CPA!

In October of 2010, three unemployed **students,** Camille Pedersen, Jason Lee, and Nicholas Tambe decided to start their own animal grooming business. At first they plan to offer typical grooming services: baths nail clippings, and haircut. In January 2011 they begin selling inventory. The have one employee.

The company had a slow start in 2010 but started growing in leaps and bounds by March of 2011.

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| --- |
| **Lions and Tigers**  **Basic Chart of Accounts**  **10100 · Cash** |
| **11000 · Accounts Receivable**  **11500 Allowance for Doubtful Accounts** |
| **12000 · Grooming Supplies** |
| **13000 · Prepaid Rent** |
| **15000 · Equipment** |
| **23000 · Accounts Payable** |
| **20000 · Notes Payable** |
| **30000 · Common Stock** |
| **40000 · Grooming Revenue** |
| **60000 · Rent Expense** |
| **70000 · Salary Expense** |
| **80000 · Cleaning Expense** |

Trial Balance

Lions and Tigers case problem: Internal Control

On January 15th Nicholas calls you and says: “I’ve heard a lot about internal control. What is it? What should we be doing? What shouldn’t we be doing? We would like to get some systems in place so we can higher some more employees and take some time off.”

Currently, Camille does…Nicholas does….Jason…does have one employee.

Using the discussion board address some of Nicholas questions, talk about the questions you may have for Lions and Tigers, and discuss the case in general.

Lions and Tigers: Bad Debt

When you talked with Jason last week you asked for him to send over a rough trial balance so you can begin the process of preparing the 2011 financial statements. As you review the Trial Balance you become concerned about the growing A/R balance.  You call Camille and ask her to send over an Accounts Receivable Aging Report.  Industry averages for uncollectible accounts (adjusted for the local region) is 5% of credit sales or 10% of A/R.

Based on the following balances on calculate and record the adjusting entry for bad debt expense under the Percentage of Sales Approach AND the Percentage of Receivables Approach.

Sales  $    350,000

A/R         50,450

ADA (CR)      450

When Camille sends over the aging schedule she tells you she received a bankruptcy notice on the Local Vet.  He owes $8,250. Using the allowance method how would Camille record this?

Lions and Tigers

Fixed Assets

Jason has decided to purchase a new vehicle for the business.  After hours of research, test drives, and price comparison he has settled on a Hummer H3. On January 1, 2011 he negotiated a price of $38,000 fully loaded. Based on his past experience he intends to keep use the vehicle for 10 years and expects a salvage value of 10,000. He estimated that I would drive the Hummer 100,000 miles.

  A. Please calculate the depreciation under all three methods for three years.

2011 = 20,000 miles

2012 = 10,000 miles

2013 =  5,000 miles

B. Assume after three years Jason changes his estimate – Life should have been 8 years and salvage value is 3,000. Assuming I adopted the Straight-Line depreciation method: calculate the revised depreciation.

Lions and Tigers

Disposal of a Plant Asset

Let’s pretend we can see in the future. After 5 years Jason decides to get rid of the Hummer – purple is not his color!

1) Let’s assume he sells it for $20,000. Perform all the calculations and record the sell.

2) Opps the buyer backed out; luckily Jason found another buyer for $5,000. Perform all the calculations and record the sell.

3) Oh no, on the way to sell the Hummer Jason was in a car accident. He is fine but he the Hummer is totaled. His insurance will not cover the vehicle. Jason calls a local wrecking yard and they take it away for free. Perform all the calculations and record the disposal.

Lions and Tigers

Liabilities

In February of 2011 Lions and Tigers landlord offers them the chance to buy their current building. Partner Jason tries to discourage this purchase, but the other partners, perhaps influenced by the fact that they own homes nearby, decide to buy the land and premises. The company pays $60,000 in cash, and secures a mortgage for the remainder of the $400,000 purchase price. **Journalize**

After purchasing the building Nicholas decides they should expand the building and maybe purchase another location. Due to existing debt and the economy the company is unable to obtain a bank loan.  On July 1, 2011 Lions and Tigers issues 100,000 bonds 10% interest, five-year bonds at 96. The bonds require semi-annual payments. **Journalize the sale of bonds, the payment of interest, and retirement of the bonds.**

**Lions and Tigers**

**Bonds**

Nicholas thinks that the bonds issues last week were not issued for the correct price. **From Last week:** On July 1, 2011 Lions and Tigers issues 100,000 bonds 10% interest, five-year bonds. The bonds require semi-annual payments.

A) Using a market rate of 12% calculate and record the bond issuance.

B) Using a market rate of 6% calculate and record the bond issuance.

C) Go one step further and prepare the entries for the bond interest payment in Part A and Part B. Use the straight line interest amortization method.

Lions and Tigers

Stock

Lions and Tigers decide to raise more capital by issuing stock. Each of the present owners will maintain 20% interest. The company will be privately held.

What does Lions and Tigers need to do to become incorporated and issue stock?

On April 1st Lions and Tigers issued 4,000 shares of stock to the existing partners. The par value is $2 per share. Do not worry about this entry.

On April 15th Lions and Tigers issues 500 shares to Uncle Joe for $3 per share. Please record entry.

On April 30th Lions and Tigers issues the remaining 500 shares to Tiffany Chirophys for $ per share.

On May 15th Lions and Tigers declares a $ 1 stock dividend per share for stock holders of record on May 30th. This dividend will be paid on June 30th.

On July 4th the company purchases 300 shares of stock from Jason for $12 per share.

On July 5th the company sells this Treasury Stock to Nicholas, Camille, and Tiffany for $1 per share.

Lions and Tigers - Statement of Cash Flow

Let’s look into the future and prepare a statement of cash flows for Lions and Tigers for 2111.

**Lions and Tigers**

**Comparative Balance Sheets**

**December 31, 2110 and 2111**

2111 2110

**Assets**

Cash 232,500 257,900

Account Receivable 497,800 532,500

Merchandise Inventory 635,200 621,300

Prepaid Insurance 17,000 15,000

Equipment 720,000 600,000

Accumulated Depreciation (265,000) (297,500)

Total 1,837,500 1,729,200

**Liabilities and Stockholder Equity**

Accounts Payable 423,100 397,600

Bonds Payable 0 205,000

Common Stock, $10 par 120,000 70,000

Paid in Excess Capital, CS 820,000 620,000

Retained Earnings 474,400 436,600

Total 1,837,500 1,729,200

Net Income $125,800

Depreciation Expense 92,000

Sold Equipment for $80,000 and purchased equipment for $ 320,000.