

Problem 8

Jonathan Wilde is a CPA. He has numerous clients, one of which is Wonderful Weekend Events (WWE). WWE is a full service weekend event consulting firm, and is interested in buying Weekend Wonders Photography Studio (WWPS). WWPS uses the cash basis of accounting. Jonathan has been retained to help WWE acquire WWPS, and you are a staff accountant working for Jonathan. Begin by evaluating the following facts for June.

Revenues WWPS provides a complete wedding-day package for \$3,950. The package requires a \$2,000 down payment at the time the contract is signed, a \$1,000 payment on the date of the event, and a final \$950 payment 30 days after the wedding. The company uses a mobile digital processing lab, and is able to deliver a complete wedding portfolio at the close of the reception on the wedding day itself!

75 weddings were photographed during June. All of these events were booked in earlier months. During June, an additional 92 weddings were booked for future months. Final payments were received during June for 47 weddings performed in May. None of the June weddings resulted in receipt of the final payment before July 1, but full payment is expected.

Expenses During June \$124,000 was actually paid for wages. Accrued wages at the beginning of the month totaled \$24,000. At the end of the month, \$46,000 was owed to employees.

At the close of June, the WWPS bought new photography equipment for \$26,000. Coming into June, WWPS owned equipment with a total cost of \$900,000. This equipment has an average life of 50 months.

Supplies on hand at the beginning of the month totaled \$225,300. \$152,000 was expended for supplies during the month. At the end of the month, supplies on hand were \$282,400.

- Prepare a cash basis income statement for June. Preliminarily, WWE is willing to pay a price equal to 75 X June's monthly income.
- On further review of the facts relating to WWPS, Roger suggested that a fair offer should be based on accrual basis income. Calculate accrual basis income.
- What is the proposed purchase price? What is the value of utilizing a CPA to assist in the business decision process.

Worksheet 8

a)

| WWPS | | |
|---|------|-------------|
| Cash Basis Income Statement | | |
| For the Month Ending June 30, 20XX | | |
| Revenues | | |
| Services to customers | | \$ - |
| Expenses | | |
| Wages | \$ - | |
| Equipment | - | |
| Supplies | - | - |
| Cash basis income | | <u>\$ -</u> |

Cash basis revenues: _____

b)

| WWPS | | |
|---|------|-------------|
| Income Statement | | |
| For the Month Ending June 30, 20XX | | |
| Revenues | | |
| Services to customers | | \$ - |
| Expenses | | |
| Wages | \$ - | |
| Depreciation | - | |
| Supplies | - | - |
| Net income | | <u>\$ -</u> |

Accrual basis revenues: _____

Expenses: _____

c)

Solution 8

a)

| WWPS | | |
|---|------------|------------------------|
| Cash Basis Income Statement | | |
| For the Month Ending June 30, 20XX | | |
| Revenues | | |
| Services to customers | | \$ 303,650 |
| Expenses | | |
| Wages | \$ 124,000 | |
| Equipment | 26,000 | |
| Supplies | 152,000 | 302,000 |
| Cash basis income | | <u><u>\$ 1,650</u></u> |

Cash basis revenues:

| | |
|--|--------------------------|
| 92 weddings booked @ \$2,000 payment | \$ 184,000 |
| 75 weddings photographed @ \$1,000 payment | 75,000 |
| 47 weddings final payment @ \$950 payment | 44,650 |
| | <u><u>\$ 303,650</u></u> |

Try this...

The sequence 2, 4, 6, 8, 10, 12, 14, 16, ... is the sequence of even whole numbers. The 100th place in this sequence is the number...?

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b)

| WWPS | | |
|---|------------|------------------------|
| Income Statement | | |
| For the Month Ending June 30, 20XX | | |
| Revenues | | |
| Services to customers | | \$ 296,250 |
| Expenses | | |
| Wages | \$ 146,000 | |
| Depreciation | 18,000 | |
| Supplies | 124,900 | 288,900 |
| Net income | | <u><u>\$ 7,350</u></u> |

Accrual basis revenues:

| | |
|------------------------------------|--------------------------|
| 75 weddings photographed @ \$3,950 | <u><u>\$ 296,250</u></u> |
|------------------------------------|--------------------------|

Expenses:

| | |
|-------------------------------|--------------------------|
| Wages paid | \$ 124,000 |
| Less: Beginning accrued wages | (24,000) |
| Plus: Ending accrued wages | 46,000 |
| Accrual basis wages | <u><u>\$ 146,000</u></u> |

| | |
|------------------------------------|-------------------------|
| Depreciation (\$900,000/50 months) | <u><u>\$ 18,000</u></u> |
|------------------------------------|-------------------------|

| | |
|--------------------------|--------------------------|
| Supplies purchased | \$ 152,000 |
| Plus: Beginning supplies | 225,300 |
| Less: Ending supplies | (252,400) |
| Accrual basis supplies: | <u><u>\$ 124,900</u></u> |

- c) The proposed purchase price is \$551,250 ($\$7,350 \times 75$). This is a far cry from the price that would result based on the cash basis income ($\$123,750 = \$1,650 \times 75$). CPAs are well trained in financial decision making, and can offer valuable services to structure “smart” and “fair” business deals.