



Comprehensive case study

1-Michael mcBryan the owner invested \$ 80000 cash in the business

Cash \$80000
McBryan capital \$80000

2- Purchased land for business site

Land \$52000
Cash \$52000

3- Purchased building from MTA paid part cash –balance payables within 3 menthes

Building \$36000
Cash \$6000
Notes payables \$ 30000

4-Purchased tools & equipment on credit due in 60 day form snap-on co

Tools & equipment \$ 13800
Accounts payables \$13800

5- Sold unused tools at cost due within 60 days

Accounts receivable \$1800
Tools & equipment \$ 1800

6-collect apart of accounts receivables

Cash \$ 600
Accounts Receivable \$600

7-made partial payment to snap-on

Accounts payable \$6800
Cash \$6800

<p>cash</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50%; text-align: right;">80000</td><td style="width: 50%;"></td></tr> <tr><td style="width: 50%;"></td><td style="width: 50%; text-align: left;">52000</td></tr> <tr><td style="width: 50%; text-align: right;">600</td><td style="width: 50%; text-align: left;">6000</td></tr> <tr><td style="width: 50%;"></td><td style="width: 50%; text-align: left;">6800</td></tr> </table>	80000			52000	600	6000		6800	<p>receivable</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50%; text-align: right;">1800</td><td style="width: 50%;"></td></tr> <tr><td style="width: 50%;"></td><td style="width: 50%; text-align: left;">600</td></tr> </table>	1800			600	<p>land</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 50%; text-align: right;">52000</td><td style="width: 50%;"></td></tr> </table>	52000	
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Trial balance November 2000

Account name	Debit	Credit
Cash	15800	
Accounts receivable	1200	
Land	52000	
Building	36000	
Tools & equipment	12000	
Notes payable		30000
Accounts payable		7000
McBryan capital		80000
Total	117000	117000

McBryan balance sheet November 2000

assets

cash	15800
Accounts receivable	1200
Land	52000
equipment & tools	<u>12000</u>
Building	<u>36000</u>
assets total	<u>117000</u>

owners equity & liabilities

liabilities

Notes payable	30000
Accounts payable	7000
total liabilities	<u>37000</u>

owners equity

12.2000/31 McBryan capital	<u>80000</u>
owners equity & liabilities total	<u>117000</u>

At December 2000 the following transaction

- 1- Purchased newspaper advertising to run in December
 Advertising expense \$ 360
 Cash \$ 360
- 2- Purchased radio advertising on account payment due in 30 days
 Advertising expense \$ 470
 Accounts payable \$ 470
- 3-purchased shop supplies on account payment due in 30 days
 Shop supplies \$1400
 Accounts payable \$ 1400
- 4-repair serviced rendered to airport shuttle
 Cash \$ 4980
 Repair service revenue \$ 4980



- 5- Owner withdraw cash from business
 McBryan capital \$ 3100
 Cash \$3100
- 6- Owner invested cash in business
 cash \$ 1000
 McBryan capital \$ 3100
- 7- Billed harbor cap for service rendered in December
 Accounts receivable \$ 5400
 Repair service revenue \$ 5400
- 8- Paid all wages for December
 wages expense \$ 4900
 Cash \$ 4900

Unadjusted Trial balance 31 dec.

Accounts	Debit	Credit
Cash	13420	
Accounts receivable	6600	
Shop supplies	1400	
Land	52000	
Building	36000	
Tools & equipment	12000	
Notes payable		
Accounts payable		30000
McBryan capital		8870
McBryan drawing	3100	
Repair service revenue		81000
Advertising expense		10380
Wages expense	830	
	4900	
Total	130250	130250

Adjusting entries:

- 1- To recognize as expense the cost of shop supplies used in December.

Supplies expense \$ 400

 Shop supplies \$ 400

- 2- to record one month depreciation on building –estimated useful life 20 year.

Depreciation expense \$ 150

 Accumulated depreciation \$ 150

- 3- to record one month depreciation on tools & equipment-estimated useful life 5 year.

Depreciation expense \$ 200

 Accumulated depreciation \$ 200



work sheet 31 December 2000	trial balance		adjustment		adjusted trial balance	
	Dr	Cr	Dr	Cr	Dr	Cr
accounts						
cash	13420				13420	
receivable Accounts	6600				6600	
supplies Shop	1400			400	1000	
Land	52000				52000	
Building	36000				36000	
equipment & Tools	12000				12000	
payable Notes		30000				30000
payable Accounts		8870				8870
capital McBryan		81000				81000
drawing McBryan	3100				3100	
service revenue Repair		10380				10380
Advertising expense	830				830	
Wages expense	4900				4900	
supplies expense			400		400	
depreciation expense building			150		150	
depreciation expense tools			200		200	
accumulated depreciation building				150		150
accumulated depreciation tools				200		200
total	130250	130250	750	750	130600	130600

Preparing financial statements:

McBryan income statement 31/12/2000

revenue:

repair service revenue 10380

expenses:

Advertising expense	830	
Wages expense	4900	
supplies expense	400	
depreciation expense building	150	
depreciation expense tools	200	6480
income net		3900



McBryan statement of owners equity 31/12/2000

nov.2000 McBryan capital	80000
December add: net income for	3900
by owner additional investment	1000
subtotal	84900
owner less: withdrawals by	3100
12.2000/31 McBryan capital	81800

McBryan balance sheet 31/12/2000

assets	
cash	13420
Accounts receivable	6600
Shop supplies	1000
Land	52000
Building	36000
less: accumulated depreciation	150
equipment & tools	12000
less: accumulated depreciation	200
assets total	120670
owners equity & liabilities	
liabilities	
Notes payable	30000
Accounts payable	8870
total liabilities	38870
owners equity	
2000/12/31 McBryan capital	81800
owners equity & liabilities total	120670

cash flow McBryan 2000/12/31

cash flow from operating activities:	
net income	3900
depreciation expense	350
increase in account receivables	-5400
increase in accounts payable	1870
supplies expense	-1000
net cash flow from operating activities	-280
cash flow from financing activities:	
investment by owner	1000
withdrawals by owner	-3100
net cash flow from financing activities:	-2100
net cash flow	-2380
beginning balance nov.2000	15800
balance 31/12/2000	13420

**Closing entries:**

1-to close the repair service revenue account.

Repair service revenue	\$ 10380	
Income summary		\$ 10380

2- To close the expense accounts.

Income summary	\$ 6480	
Advertising expense		\$ 830
Wages expense		\$ 4900
Supplies expense		\$ 400
Depreciation expense building		\$ 150
Depreciation expense tools		\$ 200

3-to close income summary (transfer net income to owner's capital account).

Income summary	\$ 3900	
McBryan capital		\$ 3900

4- To close the owners drawing account .

McBryan capital	\$ 3100	
McBryan drawing		\$ 3100

After closing trial balance:

Account name	Debit	Credit
Cash	13420	
Accounts receivable	6600	
Land	52000	
Building	36000	
Tools & equipment	12000	
Notes payable		30000
Accounts payable		8870
McBryan capital		81800
Accumulated depreciation		350
Total	121020	121020

Ratio analysis:

1. Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	$\frac{1000+6600+13400}{38870}$.54
2. Quick or acid-test ratio	$\frac{\text{Cash, marketable securities and receivables (net)}}{\text{Current liabilities}}$	$\frac{6600+13400}{38870}$.51
3. Receivable turnover	$\frac{\text{Net sales}}{\text{Average trade receivables}}$	$\frac{10380}{3900}$	2.66
4- days sales in receivables	$\frac{365 \text{ days}}{\text{Receivable turnover}}$	$\frac{365}{2.66}$	137
5- fixed assets turnover	$\frac{\text{Sales}}{\text{Net fixed assets}}$	$\frac{10380}{99650}$.10
6.total Asset turnover	$\frac{\text{Net sales}}{\text{Average total assets}}$	$\frac{10380}{120670}$.09
7. Debt to total assets	$\frac{\text{Total debt}}{\text{Total assets}}$	$\frac{38870}{120670}$.32
8. Debt to total equity	$\frac{\text{Total debt}}{\text{Total equity}}$	$\frac{38870}{81800}$.48
9. Profit margin on sales	$\frac{\text{Net income}}{\text{Net sales}}$	$\frac{3900}{10380}$.38
10. Rate of return on assets	$\frac{\text{Net income}}{\text{Average total assets}}$	$\frac{3900}{120670}$.03
11. Return on equity	$\frac{\text{Net income}}{\text{total equity}}$	$\frac{3900}{81800}$.05