

Case #3: Lady Leaf and her "Tea experience" business

Johanna Strauss had worked for more than 25 years as the executive assistant of top managers in large Canadian corporations. After retirement she decided to go on a trip around the world until she gets bored or drops dead. After 20 months in her 'voyage' Johanna decided to return to Toronto due to a complicated health condition. After the initial treatment was completed Johanna needed to have regular check ups and not being confident in herself as before she decided to stay in Toronto all the time. Johanna has been always extremely active and in this new stage of her life she couldn't sit still. At this stage she was not interested in working for others as her health made her not very reliable, so she decided to start her own business with a passion she discovered in her 'voyage': prepare and serve tea as it should be done. Her target market or audiences are selected meetings organized by top executives or their partners in their houses.

On January 1st 2016 Johanna or Lady Leaf as she wanted to be called set up a company to formalize the tea service she has been experiencing with her friends and acquaintances. A friend help her to prepare a business plan that was ready to be presented at her friend's bank so she can get some extra financing if needed, in the meantime this friend was so sure about Johanna's idea that decided to lend her \$10,000 for 5 years with an interest rate of 3% per year. On January 2nd Johanna sets up her company: Tea Experience with a capital of 10,000 shares valued at \$5 each. A lawyer produced all the needed paperwork.

On January 3rd Johanna opens a bank account under the name of Tea Experience Corp. depositing the \$10,000 from her plus the \$10,000 loaned by her friend. On January 4th Johanna transfers ownership of her sets of tea equipment to the company. All of her tea equipment is high end while one is very rare and exclusive. The equipment has a fair market value of \$7,500 and is estimated to last for 5 years and then, if not broken, can be sold for \$1,500. She also made sure to transfer the insurance contract for her tea equipment from her to the company as well, the contract started on October 1st 2015. The insurance premium is \$900 per year and it was paid in full when signed on October 1st 2015. On the same day Johanna signs in for the services of a ride sharing app that would allow her to call a car to go and come back from the places of the customers that hire her.

The following is a list of transactions that occurred during the first month of operations of "Tea Experience Corp":

January 4th Completed the purchase of an exquisite wood box fitted to carry and maintain intact the quality of tea leaves for \$3,000. The box, which will be paid in full on January 5th 2017, will be used during 5 full years with no resale value at the end.

January 5th Completed the purchase of an exquisite selection of tea leaves and mixtures for \$2,000. 50% was paid in cash, the other 50% will be paid in 30 days.

January 7th Great start of business serving several events for a large and well known international charity. Got a cheque for \$3,000 for her services and \$2,000 in account to be collected on Jan 31st.

January 7th Paid \$400 of transportation to the ride sharing service.

January 15th Hired a carpenter to improve the look of her exquisite wood box (this will not change the value or the useful life of the box). The work is completed and Johanna paid \$300 on January 20th and promised to pay the rest (\$700) on February 20th.

January 20th Provided her services for two small events. One promised to pay \$500 of February 10th, while the other will pay the \$500 by the end of February.

January 20th Provided services in an afternoon event at a local church. Johanna collected \$200 for all her services.

January 20th Paid \$100 of transportation to the ride sharing service.

January 23rd Paid for a new professional outfit \$80 (clothes) and a hair salon \$40 that included labour, materials and tax. This was needed so she can be presentable at the high end event she will be providing services on January 25th.

January 23rd Ordered 300 personal cards and 100 brochures. Total paid for the rush order is \$500 (\$1 each

personal card and \$2 each brochure). Johanna will start distributing them at the high end event of January 25th.

January 25th One big event was serviced. The bill of \$4,000 was paid 50% before the beginning of the event and the rest in 30 days. Johanna was able to distribute 100 personal cards and 20 brochures.

January 29th Received the bill from the lawyer that helped her to set up the company for \$900 payable by February 15th.

January 30th Received a deposit of \$800 for servicing a mid afternoon get together on February 29th. The group wanted to reserve the date to do something special in her house as it only happens once every 4 years.

January 31st Having consumed 75% of the tea at hand she purchases on account more tea for \$1,000.

Additional information

January 31st The online bank statement for the month of January shows bank fees of \$25.

January 31st The phone bill for \$120 was received for the month of January, the payment is due on February 9th.

January 31st Johanna does not collect \$2,000 from a service provided on Jan 7th.

January 31st Having cash at the bank decided to pay off all tea purchases.

Prepare "T" Accounts in ACCRUAL and CASH basis for this case using the following chart of accounts, when relevant, prepare the Income statement, Statement of Retained Earnings and Balance Sheet and then answer the questions.

| | | |
|-------------------------|----------------------------|---------------------|
| Revenue | Advertising Expense | Bank fees |
| Depreciation Expense | Expense on Equipment | CGS |
| Insurance Expense | Interest Expense | Phone Expense |
| Purchases | Selling Expenses | AR |
| Transportation Expense | Accumulated Depreciation | Cash |
| Organization Costs | Prepaid Advertising | Inventory |
| Prepaid insurance | Tea equipment | Tea Equipment (Box) |
| Advances from customers | Equipment Payable | AP |
| Interest Payable | Organization Costs Payable | Loan Payable |
| Phone payable | Common Shares | Retained Earnings |

Attempt 3 - 10/10

1.

What is the amount of Selling Expenses at the end of January 31 (after AJE)? Use accrual accounting.

- between \$101 and \$200
 - more than \$300
 - between \$201 and \$300
 - \$0
 - between \$1 and \$100
-

2.

What is the sum of all expense at the end of January 31 (after AJE)? Use cash accounting.

- more than \$8,000
 - between \$1 and \$4,000
 - between \$5,001 and \$8,000
 - \$0
 - between \$4,001 and \$5,000
-

3.

What is the amount of Accumulated Depreciation at the end of January 31 (after AJE)? Use accrual accounting.

- more than \$300
 - between \$101 and \$200
 - between \$201 and \$300
 - between \$1 and \$100
 - \$0
-

4.

What is the Total of non Current Liabilities at the end of January as reported in the Balance Sheet? Use cash accounting.

- between \$1 and \$4,000
 - more than \$8,000
 - between \$5,001 and \$8,000
 - \$0
 - between \$4,001 and \$5,000
-

5.

What is the amount of Insurance Expense at the end of January 31 (after AJE)? Use accrual accounting.

between \$51 and \$100

\$0

more than \$150

between \$1 and \$50

between \$101 and \$150

6.

What is the amount of Prepaid Advertising at the end of January 31 (after AJE)? Use cash accounting.

between \$401 and \$600

\$0

between \$201 and \$400

more than \$600

between \$1 and \$200

7.

What is the amount of Phone Payable at the end of January 31 (after AJE)? Use accrual accounting.

between \$101 and \$200

between \$201 and \$300

\$0

more than \$300

between \$1 and \$100

8.

What is the total of the account Retained Earnings reported in the Balance Sheet at the end January? Use accrual accounting.

\$0 or negative (net loss)

between \$5,001 and \$7,000

between \$2,001 and \$5,000

between \$1 and \$2,000

more than \$7,000

9.

What is the amount of unearned revenues or advances from customers at the end of January 31 (after AJE)? Use accrual accounting.

between \$251 and \$500

more than \$750

between \$1 and \$250

between \$501 and \$750

\$0

10.

What is the amount of Accounts Payable at the end of January 31 (after AJE)? Use accrual accounting.

between \$1 and \$1,000

more than \$3,000

\$0

between \$2,001 and \$3,000

between \$1,001 and \$2,000