

## CASE STUDY: MARC PRAIRIE SERVICES INC.

Marc Prairie has just finished his doctoral thesis on corporate governance practices. After unsuccessfully looking for a job for more than six months, he decided to open a corporate governance database business. *Marc Prairie Services, Inc.* completed the following transactions during March 2019, its first month of operations.

	Date	Transaction
1.	Mar. 1	Marc Prairie contributed to the business: an office space that was valued at €40,000 and cash of €60,000.
2.	Mar. 2	The business hired four university graduates to work as data collection specialists with a monthly salary of €1,000 each and a secretary with a monthly salary of €800.
3.	Mar. 3	The business rented a second-floor office for €2,000 a month, paying three months' rent in advance.
4.	Mar. 4	The business purchased office supplies & stationery that cost €4,000 and bought furniture of €10,000, all paid in cash immediately.
5.	Mar. 5	The business purchased computer equipment for €6,000 in cash.
6.	Mar. 11	A client requested to buy the corporate governance dataset for all listed companies in the Warsaw Stock Exchange. They agreed on a

		price of €8,000, half paid in cash immediately and the rest with the delivery of the data.
7.	Mar. 12	The business prepaid insurance expenses of €600 for the period March 1 <sup>st</sup> – August 31 <sup>st</sup> .
8.	Mar. 14	The business borrowed €20,000 from a bank.
9.	Mar. 17	The corporate governance dataset (transaction on March 11 <sup>th</sup> ) was delivered electronically to the client. The business collected €4,000.
10.	Mar. 18	A client requested to buy some corporate governance data for all firms listed in the Athens Stock Exchange. Marc Prairie had not collected this dataset as part of his doctoral studies. The delivery of this dataset was agreed for the 15 <sup>th</sup> of May for a total price of €10,000, half received immediately and the rest with the delivery of the dataset.
11.	Mar. 24	The business requested the services of <i>Morningstar LLP</i> . <i>Morningstar LLP</i> provided immediately the services related to the “Athens Stock Exchange project” and issued an invoice of €8,000 payable in two months.
12.	Mar. 25	Another client requested the Warsaw Stock Exchange dataset. The dataset was delivered the same day for a price of €10,000. The client will pay in a month.
13.	Mar. 31	Utility bill €500 for the period (Mar. 1 <sup>st</sup> – March 31 <sup>st</sup> ) was received but not paid.

As Marc Prairie thought about the first month's operations, he was sure that the business is "highly profitable given the significant increase in cash". A friend of him told him that this is not necessarily the case. He then decided to ask the advice of an accountant. The accountant identified the following issues as of March 31<sup>st</sup>:

- A. Depreciation expenses for the first month of operations had as follows: Office (€100), Furniture (€200), and Computer Equipment (€200).
- B. The salaries of employees will be paid on April 2<sup>nd</sup>.
- C. The office rental expense is not yet recorded.
- D. The office supplies used during the first month of operations amount to €1,000.
- E. The insurance expense for the first month of operations is not yet recorded.
- F. The interest expense for the loan received amounts to €100. The interest is paid at the end of the year.

Questions:

For the first-month period (March 1<sup>st</sup> to March 31<sup>st</sup>, 2019), record the transactions of *Marc Prairie Services Inc.* After reporting these transactions using the spreadsheet provided,

prepare (a) an income statement, (b) a statement of changes in equity, and (c) a balance sheet. The applicable tax rate is 25%.

Evaluate the company's performance. Is the reported profit or loss a concern? Is the increase or decrease in cash a concern?