

CASE STUDY: MONTY INC.

Monty decided to begin a consulting service called Monty, Inc. He started the business by issuing \$100,000 in capital stock on 1/1/2022. Presented below are the accounts and the respective balances, in alphabetical order, for Monty Inc., as of 31/12/2022.

Accounts Payable	12,000
Accounts Receivable	190,975
Advertising Expense	75,000
Capital Stock	100,000
Cash	105,525
Consulting Fees	1,759,500
Dividends	75,000
Entertainment Expense	361,500
Insurance Expense	36,000
Notes Payable	20,000
Rent Expense (Furniture & Equipment)	48,000
Rent Expense (Office)	84,000
Salary Expense	880,500
Supplies	10,000

Supplies Expense	19,000
Utilities Expense	6,000

You have been asked to prepare the Income Statement, Statement of Changes in Equity, and the Balance Sheet, in proper format.

Monty, Inc.

Income Statement

For the Year Ended December 31, 2022

Revenue		
Consulting Fees		\$1,759,500
Expenses		
Advertising Expense	\$75,000	
Entertainment Expense	361,500	
Insurance Expense	36,000	
Rent Expense (Furniture & Equipment)	48,000	
Rent Expense (Office)	84,000	
Salary Expense	880,500	
Supplies Expense	19,000	
Utilities Expense	6,000	
Total Expenses	<u>1,510,000</u>	
Net Income		<u>\$249,500</u>

Monty, Inc.

Statement of Changes in Equity

For the Year Ended December 31, 2022

Capital stock 1/1/2022	\$ 100,000
Retained Earnings 1/1/2022	0-
Net Income	249,500
Dividends	(75,000)
Capital stock 31/12/2022	\$100,000
Retained Earnings 31/12/2022	174,500

Monty, Inc.

Balance Sheet

December 31, 2022

Assets

Cash		\$105,525
Accounts Receivable		190,975
Supplies		10,000
Total Assets		\$306,500

Liabilities

Accounts Payable	\$12,000	
Notes Payable	20,000	
Total Liabilities		\$32,000

Stockholders Equity

Capital Stock	\$100,000	
Retained Earnings	174,500	
Total Stockholders Equity		274,500
Total Liabilities Plus Stockholders Equity		\$306,500

CASE STUDY: WILLIAM INC.

You are given the following simplified balance sheet (in Euros) of *Company William Inc.* as of 31st of August 2018.

Balance Sheet

Non- Current assets

Fixed assets	400,000
--------------	---------

Current assets

Inventories	100,000
-------------	---------

Accounts receivable	90,000
---------------------	--------

Cash	35,000
------	--------

	225,000
--	---------

Total Assets

625,000

Equity

Share Capital	380,000
---------------	---------

Retained earnings	125,000
-------------------	---------

	505,000
--	---------

Current liabilities

Trade payables	120,000
----------------	---------

Total Liabilities and Equity

625,000

The following transactions took place during November 2018.

- a. New equipment was purchased on account for 8,000.
- b. The company paid 20,000 to its trade payables.
- c. Inventories that cost 45,000 were sold for 55,000 in cash.
- d. The company received 30,000 from accounts receivable.

1. Show how each of these transactions would affect the balance sheet.
2. Prepare a balance sheet after recording these transactions.

Solution:

1.

a. Increase in Equipment by 8,000; increase in Other Payables by 8,000.

b. Decrease in Cash by 20,000; decrease in Trade payables by 20,000.

c. Decrease in Inventories by 45,000; increase in Cash by 55,000; increase in Revenue by 55,000; increase in Cost of Goods Sold by 45,000.

d. Increase in Cash by 30,000; decrease in Accounts receivable by 30,000.

Balance Sheet

Non- Current assets

Fixed assets	408,000
--------------	---------

Current assets

Inventories	55,000
-------------	--------

Accounts receivable	60,000
---------------------	--------

Cash	100,000
------	---------

215,000

Total Assets

623,000

Equity

Common Stock	380,000
--------------	---------

Retained earnings	125,000
-------------------	---------

Net Income	10,000
------------	--------

515,000

Current liabilities

Trade payables	100,000
----------------	---------

Other payables	8,000
----------------	-------

108,000

Total Liabilities and Equity

623,000