ARGOSY UNIVERSITY Classroom

JOIN THIS ASSIGNMENT DISCUSSION

Please scroll down this page to locate the starting point for our discussion.

Assignment 2: Discussion—Decision Case—World.com

Review Decision Case 1 (World.com) on page 186 in chapter 3. By **Saturday, February 28, 2015**, analyze the data presented in the case scenario and address the following questions in your initial post:

1. Assume that the most you would pay for the business is 20 times the monthly net income you could expect to earn from it. Compute this possible price.
2. Nicholas states that the least he will take for the business is an amount equal to the business's stockholders' equity balance on January 31. Compute this amount.
3. Under these conditions, how much should you offer Nicholas? Give your reason.

By the end of the week, provide substantive responses to at least two other students' initial posts.

Discussion Grading Criteria	Maximum Points
Initial Discussion Response	16
Discussion Participation	16
Writing Craftsmanship and Ethical Scholarship	8
Total:	40

Click here to view the rubric for this assignment.

Use the Respond link to post responses and materials that pertain to this assignment. Use the Respond link beneath any e

Assignment 2: Discussion

Respond

Assume that you are interested in buying World.com Advertising. You obtain the most recent monthly trial balance, which follows. Revenues and expenses vary little from month to month, and January is a typical month. Your investigation reveals that the trial balance does *not* include monthly revenues of $3,800 and expenses of $1,100. Also, if you were to buy World.com Advertising, you would hire a manager so you could devote your time to other duties. Assume that this person would require a monthly salary of $5,000.

WORLD.COM ADVERTISING
Trial Balance
January 31, 2012

	Balance	
Account Title	**Debit**	**Credit**
Cash	$ 9,700	
Accounts receivable	14,100	
Prepaid expenses	2,600	
Building	221,300	
Accumulated depreciation		$ 68,600
Accounts payable		13,000
Salary payable		
Unearned service revenue		56,700
Lee Nicholas, Capital		110,400
Lee Nicholas, Withdrawals	9,000	
Service revenue		12,300
Rent expense		
Salary expense	3,400	
Utilities expense	900	
Depreciation expense		
Supplies expense		
Total	$261,000	$261,000

Requirements

1. Assume that the most you would pay for the business is 20 times the monthly net income *you could expect to earn* from it. Compute this possible price.
2. Nicholas states that the least he will take for the business is an amount equal to the business's owner's equity balance on January 31. Compute this amount.
3. Under these conditions, how much should you offer Nicholas? Give your reason. (Challenge)

Case 2. One year ago, Tyler Stasney founded Swift Classified Ads. Stasney remembers that you took an accounting course while in college and comes to you for advice. He wishes to know how much net income his business earned during the past year in order to decide whether to keep the company going. His accounting records consist of the T-accounts from his ledger, which were prepared by an accountant who moved to another city. The ledger at December 31 follows. The accounts have *not* been adjusted.

Stasney indicates that at year-end, customers owe him $1,600 for accrued service revenue. These revenues have not been recorded. During the year, Stasney collected $4,000 service revenue in advance from customers, but he earned only $900 of that amount. Rent expense for the year was $2,400, and he used up $1,700 of the supplies. Stasney determines

Trial balance prepared in Chapter 2 consider the following adjustment data gathered by CJ:

a. CJ prepared an inventory of supplies and found there were $70 of supplies in the cabinet on April 30
b. One month's combined depreciation on all assets was estimated to be $300

Requirements

1. Using the data provided from the trial balance, the previous adjustment information, and the information from Chapter 2, prepare all required adjusting journal entries for April.
2. Prepare an adjusted trial balance as of April 30 for Crystal Clear Cleaning.

Apply Your Knowledge

Decision Cases

Case 1. Lee Nicholas has been the owner and has operated World.com Advertising since its beginning 10 years ago. The company has prospered. Recently, Nicholas mentioned that he would sell the business for the right price.

that depreciation on his equipment was $5,000 for the year. At December 31, he owes his employee $1,200 accrued salary.

Cash	
Dec 31 5,800	

Accounts receivable	
Dec 31 12,000	

Prepaid rent	
Jan 2 2,800	

Supplies	
Jan 2 2,600	

Equipment	
Jan 2 36,000	

Accumulated depreciation	

Accounts payable	
	Dec 31 21,500

Unearned service revenue	
	Dec 31 4,000

Salary payable	

T. Stasney, Capital	
	Dec 31 20,000

Depreciation expense	

T. Stasney, Withdrawals	
Dec 31 28,000	

Service revenue	
	Dec 31 59,500

Salary expense	
Dec 31 17,000	

Rent expense	

Utilities expense	
Dec 31 800	

Supplies expense	

Requirement

1. Help Stasney compute his net income for the year. Advise him whether to continue operating Swift Classified Ads.

Ethical Issue

The net income of Steinbach & Sons, a department store, decreased sharply during 2011. Mort Steinbach, manager of the store, anticipates the need for a bank loan in 2012. Late in 2011, Steinbach instructs the store's accountant to record a $2,000 sale of furniture to the Steinbach family, even though the goods will not be shipped from the manufacturer until January 2012. Steinbach also tells the accountant *not* to make the following December 31, 2011, adjusting entries:

Salaries owed to employees	$900
Prepaid insurance that has expired	400

Requirements

1. Compute the overall effects of these transactions on the store's reported income for 2011.
2. Why is Steinbach taking this action? Is his action ethical? Give your reason, identifying the parties helped and the parties harmed by Steinbach's action. (Challenge)
3. As a personal friend, what advice would you give the accountant? (Challenge)

Financial Statement Case

Amazon.com—like all other businesses—makes adjusting entries prior to year-end in order to measure assets, liabilities, revenues, and expenses properly. Examine **Amazon's** balance sheet and Note 3. Pay particular attention to Accumulated depreciation.

1. Open T-accounts for the following accounts with the balances shown on the annual reports at December 31, 2006 (amounts in millions, as in the **Amazon.com** financial statements):