

Paul Morris is a doctor of veterinary medicine specializing in horses. At the beginning of March, he incorporated his practice, and has completed his first month in business. He has come to you seeking help setting up his "books." The following is a transcript of your conversation with Dr. Morris.

- Dr. Morris "I specialize in embryo transplants for horses that will be used in cutting horse competitions. I started the month by investing \$30,000 of my own money in the stock of the business."
- You "By stock, do you mean livestock animals or capital stock?"
- Dr. Morris "I mean the capital stock of the business -- I don't actually own any animals. I work with my clients' animals only."
- You "Ok, is that all the money you had to start out the business? Were there any other investors?"
- Dr. Morris "I am the only owner, but the business did borrow \$50,000 to buy some land on which I plan to build a barn next year. Is that what you mean by other investors?"
- You "Not exactly. The loan will need to be listed as a liability of the business. Have you paid off any of the loan yet?"
- Dr. Morris "Not yet. The loan is not due for several years. But, I did pay \$400 interest on the loan for the month."
- You "I see. So, you plan to build a barn next year on the land. I guess that is where you will be working with animals in the future. But, where are you caring for animals currently?"
- Dr. Morris "I rent stalls from Tri-County arena. That costs me \$1,500 per month. Which reminds me, I need to pay them for the first month. I forgot to send them their check!"
- You "Besides the interest, what other bills have you paid so far?"
- Dr. Morris "I knew you would ask that, so I kept a list. I paid for salaries of \$2,000, for supplies used of \$3,300, and utilities of \$700. That's it so far."
- You "Do you have any other bills that have not been paid yet?"
- Dr. Morris "Nope, just the rent, but we already talked about."
- You "Good. Let's talk about your revenues. Do you have list of what customers paid you this month?"
- Dr. Morris "No, just a total of all my bank deposits. They come to a total of \$26,315 -- excluding the cash deposits for my original investment and the \$50,000 loan."

- You "I see, and this \$26,315 all relates to services provided to customers? Have you done any work for which you have not been paid?"
- Dr. Morris "Yes, my wife keeps up with the outstanding balances due from customers. She told me that we are still owed \$9,500."
- You "Well, Dr. Morris, I think that gives me enough information to get started. I will prepare you a set of financial statements for your first month of business, and we will see where you stand. Then, I think the first order of business for next month will be to get you set up with a computerized accounting system. You really will need an organized accounting system going forward, and that is best handled with a basic computer program. There are many from which to choose."
- Dr. Morris "Great, that is what I was hoping you would say. I cannot tell you how much I appreciate your help on this."

- (a) Prepare summary journal entries that reflect the first month of business.
- (b) Use T-accounts to capture the impact of the transactions on the accounts.
- (c) Prepare a trial balance as of the end of March.
- (d) Prepare an income statement and statement of retained earnings for the month of March. Prepare the resulting balance sheet as of the end of the month.