

Moncrief Corporation is a small business operating in a state where a tax on income is contrary to the state's constitution. In an effort to raise revenue, the state has imposed a tax on business receipts for services provided to customers (total revenues, whether collected during the period or not). The tax is equal to 1% of revenues in excess of \$300,000.

Moncrief prepared its state tax return by adding up the total deposits to the company's bank account during the year. Total deposits were \$1,240,000, and the company paid taxes of \$9,400  $(\$1,240,000 - \$300,000) \times 1\%$ .

Assume you are an auditor for the state, and Moncrief has been randomly selected for a routine review. You immediately find that the company does not maintain a typical journal/ledger system, and is fundamentally clueless about proper accounting procedures.

You have discovered the following limited information as part of your examination:

- Fact 1 Total deposits included \$150,000 that resulted from issuing shares to stockholders.
  - Fact 2 The total deposits included \$25,000 of interest income on investments.
  - Fact 3 The total deposits included \$900 that was the result of a bank error. The bank subsequently discovered the error, and removed the funds from Moncrief's account.
  - Fact 4 Moncrief provides some services for cash, and portions of that money are never deposited to a bank. The company maintains a cash receipts book and you have determined that \$24,700 was collected from customers but never deposited.
  - Fact 5 Bank deposits during the period included a \$1,200 refund check from a vendor relating to an overpayment for supplies.
  - Fact 6 The company deposits included \$14,000 that was the result of a refund of an overpayment of federal income taxes.
  - Fact 7 During the year, Moncrief collected a customer deposit toward a future contract. This \$10,000 advance was deposited and subsequently refunded when both parties mutually agreed to cancel the contract.
  - Fact 8 Moncrief has many customers for which services are provided on account. As of the beginning of the year, the balance due from customers was \$130,000. By the end of the year, accounts receivable had grown to \$390,000. Moncrief has never experienced a problem with non-payment, and all customers pay their accounts in full within 90 days of a transaction.
- (a) Prepare an analysis to determine the correct amount of revenue for purposes of computing the tax.
  - (b) Prepare journal entries for the "revenue" cycle, as well as the other cash items described.
  - (c) Prepare a general ledger account supporting the revenue calculation.