

Roger Wilde is a CPA. He has numerous clients, one of which is Wedding World (WW). WW is a full service bridal consulting firm and is interested in buying Wedding Wonders Photography Studio (WWPS). WWPS uses the cash basis of accounting. Roger has been retained to help WW acquire WWPS, and you are a staff accountant working for Roger. Begin by evaluating the following facts for June.

Revenues WWPS provides a complete wedding-day package for \$2,950. The package requires a \$1,000 down payment at the time the contract is signed, a \$1,200 payment on the date of the wedding, and a final \$750 payment 30 days after the wedding. The company uses a mobile digital processing lab and is able to deliver a complete wedding portfolio at the close of the reception on the wedding day itself!

Seventy-five weddings were photographed during June. All of these events were booked in earlier months. During June, an additional 92 weddings were booked for future months. Final payments were received during June for 47 weddings performed in May. None of the June weddings resulted in receipt of the final payment before July 1, but full payment is expected.

Expenses During June \$70,000 was actually paid for wages. Accrued wages at the beginning of the month totaled \$12,000. At the end of the month, \$23,000 was owed to employees.

At the close of June, the WWPS bought new photography equipment for \$13,000. Entering June, WWPS owned equipment with a total cost of \$700,000. This equipment has an average life of 50 months.

Supplies on hand at the beginning of the month totaled \$123,500 and \$76,000 was expended for supplies during the month. Supplies on hand were \$81,200 at the end of the month.

- (a) Prepare a cash basis income statement for June. Preliminarily, WW is willing to pay a price equal to 75 X June's monthly income.
- (b) On further review of the facts relating to WWPS, Roger suggested that a fair offer should be based on accrual basis income. Calculate accrual basis income.
- (c) What is the proposed purchase price? What is the value of utilizing a CPA to assist in the business decision process?
- (d) As a general rule, could a CPA like Roger give an unqualified audit opinion on the cash basis financial statements? Why or why not?
- (e) Why might some businesses that are not required to follow GAAP use the cash basis?
- (f) What is the modified cash basis of accounting?