BTOWN COACH: A CASE STUDY FOR FINANCIAL ACCOUNTING STUDENTS

by Elise Boyas, University of Pittsburgh | Brian Hogan, University of Pittsburgh

eaboyas@pitt.edu
hoganb@pitt.edu
Full Paper
Experiential Track

ABSTRACT

Since the early 2000s there have been calls for higher education to provide opportunities for experienced-based learning in business programs. ABSEL's focus on experience-based learning and pedagogy provides an opportunity for sharing effective pedagogical tools. This case study assignment is designed to give accounting students an opportunity to interpret transactions and prepare basic financial statements. It is best used in the first course in the financial accounting major but could be modified for use in a core course in a graduate program. This paper includes the case, the grading rubric, and student responses to its use.

INTRODUCTION

Kolb's learning theory rests on the notion that learning is the acquisition of abstract concepts which can be applied in a range of situations and that learning is the result of experiences (Kolb, 1984). Active learning has been shown to lead to better student learning compared with learning outcomes from traditional lecture (Morgan et at., 2005). Experience-based learning has a significant positive effect on student learning and students' perceptions of their learning (Burch et al., 2014).

The remainder of this paper discusses a case study used in the first course in the financial accounting major, BUSACC1204, at the College of Business Administration, University of Pittsburgh. The case study material can be updated for changes in accounting to incorporate timely issues and it can be modified for use in the core accounting course in a graduate business degree program. The case study, grading rubric, teaching suggestions, solution, and student survey feedback are included in this paper and may be altered and used by other instructors in their own courses without advance permission.

CASE STUDY: B TOWN COACH SERVICE

General Requirements

BTown Coach Service case (hereafter referred to as BTown) describes the transactions in the initial accounting periods for a fictitious newly formed bus company. Students must record initial formation transactions, ongoing transactions, and adjusting journal entries as well as prepare all appropriate financial statements. Further, students are presented with a measurement issue related to accounting for software costs incurred to develop customer interface software and an App for the bus service. A discussion of software costs under US Generally Accepted Accounting Principles (USGAAP) as well as a requirement to research and document how the treatment of software cost would differ if BTown followed international accounting standards (IFRS) is incorporated into the deliverables. Finally, the case asks students to create a projection of net income for the following accounting period using information given.

BTown is intended to be used as a final project in an Introduction to Financial Accounting class or as a tool at the start of the semester in the first major course following the core financial accounting course. This first major course is typically Intermediate Financial Accounting, and the case reinforces a common knowledge base at the outset of the course. This case (and other versions of this case) has been used successfully during the first few weeks of the first Intermediate Accounting Course at the College of Business Administration, University of Pittsburgh. Students worked on this assignment in groups of 2, self-selected. If students are unable to assemble a team, they were randomly assigned to a partner and they could also petition to work on the assignment on their own.

Description of Case Study

Background Information:

On November 1, 20X4, BTown Coach Service (BTown) was incorporated in Massachusetts. BTown will be offering commuter bus service from Boston Logan International Airport to various locations in New England and the Mid-Atlantic region. There will not be any overnight service. Limited service is expected to begin on January 1, 20X5, and new routes will be added over the next twelve months.

BTown is authorized to issue up to 800,000 shares of its $1 par common stock. On November 1, 20X4, the co-founders Meg and Tim, CEO and CFO of BTown, each purchased 50,000 shares of common stock of BTown. The CEO (Meg) purchased her stock for cash in the amount of $10 per share, for a total of $500,000. The CFO (Tim) gave BTown a building on a parcel of land with a total fair market value of $500,000 in exchange for 50,000 shares. The CFO purchased the property 15 years ago at a purchase price of $200,000. The building has a front office space and is of sufficient square footage and height to store several buses when they are not in use and has available space to build a small repair shop so that BTown can perform light maintenance on its own buses. The building is empty and has a fair market value of $400,000, with the remainder of $100,000 attributed to the fair value of the parcel of land. The building has an expected useful life of 40 years with zero salvage value.

BTown hired Harbor Legal and Accounting Services to draft and process the documents relating to the incorporation and establishment of BTown. Harbor has billed BTown $50,000. The owner of Harbor is a friend of the co-founders of BTown and agreed to accept 2,500 shares of common stock in exchange for half of the legal and accounting services rendered, with the balance of $25,000 paid in cash. The bill to Harbor was dated November 15, for work performed related to the start-up of BTown. On November 30, Harbor was paid and the common shares were distributed to Harbor.

On November 15, BTown signed a purchase order for 5 luxury coach buses at a unit price of $800,000, for a total purchase price of $4 million. This purchase order does not have any cancellation penalties and deposits are 100% refundable up until the date the buses are delivered in satisfactory condition. These buses seat 50 passengers and have ample storage capacity for luggage. The buses are hybrid fuel buses relying on diesel fuel. BTown expects the buses to have a 20 year life with zero salvage value and the buses will go into service on January 1, 20X5, the date BTown starts to provide transportation services. BTown finances the purchase with $100,000 in cash paid on the date the purchase order contract is signed, November 15, 20X4, and a note for 6 equal annual payments of $650,000 plus interest beginning on December 31, 20X5. BTown's borrowing rate is 10%. The buses were delivered in satisfactory condition and the note was signed on December 31, 20X4

During December 20X4, BTown constructed a small repair shop and improved the garage and office space in the building. The cost of these improvements amounted to $80,000 and BTown paid the contractor the full amount on December 20, 20X4. The entire project is considered to be a capital improvement with an estimated life of 20 years with zero salvage value. The building and improvements go into service on January 1, 20X5.

On December 5, BTown purchased state of the art reservation software and a computer for the total price of $50,000. BTown pays the bill in full on the date of delivery, December 5, 20X4. BTown expects the software and hardware to have a life of 5 years with no salvage value. BTown also entered into a 5 year service contract with the vendor at a cost of $300 per month and paid for the first year ($3600) up front on December 5. BTown will begin using the computer and reservation system on January 1, 20X5. The service contract also goes into effect on January 1.

During December, BTown embarked on a print, radio and TV ad campaign to make the local market aware of the new bus service at a total cost of $8,000. BTown made an initial retainer payment to the advertising agency on December 1 in the amount of $1,000. The ad agency billed the remaining $7,000 to BTown on December 31, terms n/30. BTown paid the bill on January 31. All advertising services were received during December 20X4.

On December 20, BTown placed an order in the amount of $40,000 for essential parts to keep its bus fleet in good working order. The order is fully cancellable and refundable without penalty. The parts were delivered on January 5, 20X5, terms 2/10, n/30. BTown realized on inspection of the delivery that a box of gas filters was damaged and refused to accept this box. It was returned to the supplier for a credit on the bill of $500. BTown paid the net amount owed to the supplier on January 15. About half the parts were used for repairs in January, but BTown expects to use, on average, $40,000 of parts per month when business stabilizes. BTown's policy is to take all purchase discounts and record purchases net of the discount. Further, BTown expenses all parts when purchased.

On December 22, BTown purchases a 2-year liability policy effective January 1, 20X5 at a cost of $55,200 for the full two years.

BTown hired the aunt of the CFO (Aunt Martha) to pay the bills during the start-up phase, November and December 20X4. Martha is not a trained accountant but she is very meticulous in her record keeping. Martha received a fixed payment for her work and was paid in full on December 31 for her services, in the amount of $2000. Meg and Tim did not take any salary during the start-up months and no dividends were paid.

On December 31, BTown paid utilities in the amount of $3000 and BTown also owes accrued utilities in the amount of $1000 on December 31, 20X4. BTown owes $800 for office supplies purchased on account on December 15. BTown expenses all office supplies when incurred. The bill for office supplies was paid on January 10, 20X5. The utility bill was paid again on January 31.

Effective January 1, 20X5, a local CPA firm will be taking care of the write up work, paying bills, and filing tax returns. Billings from the CPA firm will be $4,000/month, payable on the 15th day of the following month.

Aunt Martha recorded all receipts and disbursements for the two months ended December 31, 20X4 in the cash account ledger, duplicated below. The balance per the December 31, 20X4 bank statement is $180,200.

Cash Account
BTown Coach Service

Date	Check #	Amount	Cash Balance	Memo
November 1	Deposit	500,000	500,000	From Meg -Common Stock
November 15	#101	(100,000)	400,000	Buses
November 30	#102	(25,000)	375,000	Harbor legal
December 1	#103	(1,000)	374,000	Advertising
December 5	#104	(53,600)	320,400	Computer, Software, Service
December 20	#105	(80,000)	240,400	Contractor - building
December 22	#106	(55,200)	185,200	Liability insurance policy
December 31	#107	(3,000)	182,200	Utilities
December 31	#108	(2,000)	180,200	Martha

November 1, 20X4 through December 31, 20X4

BTown began taking reservations and offering service on January 1, 20X5, with the introduction of 4 daily round trip reserved bus routes from Boston Logan Airport to Manchester, New Hampshire. Tickets purchased on the bus on the date of the trip cost $65 round-trip and $35 one-way. To encourage riders to purchase reserved seats in advance, a discount ($60 round trip and $32 one way) is offered. The reservation must be made online using a credit card and can be made up to 4 hours prior to the scheduled departure. Point of purchase tickets also must be purchased with a credit card. Unused tickets can be used for up to one year at which time they expire without a refund to the customer. Demand for the service was brisk and the following chart records the sales activity in January:

Advance One-Way Tickets Sold	Advance Round-Trip Tickets Sold	Point of Purchase One-Way Tickets Sold	Point of Purchase Round-Trip Tickets Sold
2,000	1,000	1,000	1,100

BTown ran 3 round trips per day for each of the 31 days in January. All credit card sales are settled on the day that the charge is processed and assume that all customer ticket purchases are made via credit card. The credit card companies require a .5% fee on the day of the transaction. All point of purchase one-way and round-trip tickets were used in January. Of the advanced sales, 1200 one-way tickets were used in January and 800 round-trip tickets were used in January. The credit card fee is expensed as incurred since the tickets are not refundable.

On January 1, 20X5, the CFO of BTown made arrangements with a local diesel fuel supplier for Diesel Fleet Cards to be kept in each bus. The cards can be used at diesel stations in the region to purchase diesel fuel at $2.90 per gallon, locked in for one year. A recent international surplus of diesel fuel has lowered the current price for diesel in the New England market to $2.90 per gallon, but the cost is expected to continue to fluctuate quite a bit. BTown has committed to purchase a minimum of 10,000 gallons of diesel fuel at the locked in price of $2.90 per gallon, with a maximum amount of 30,000 gallons purchased at that price. BTown expects one round-trip to use about 30 gallons of diesel fuel, depending on the weather, traffic conditions and weight of the bus. The cost of all fuel purchased on the Diesel Fleet Cards is settled every evening, like a credit card, so it is essentially immediate payment to the diesel supplier. No diesel fuel is stored and any left in the bus fuel tanks at the end of the day is immaterial. BTown has adopted the policy of expensing fuel as purchased. During January, BTown purchased and paid for 2900 gallons of diesel fuel all at the locked in price.

BTown has made a commitment to safety and hired experienced drivers through BusDrivers, Inc., a company that trains drivers and covers their benefits and liability insurance. The agreed upon fees depend on the route length with premiums paid when routes take longer than anticipated for weather and traffic delays with the average payment to BusDrivers, Inc. per round trip equal to $650. BusDrivers, Inc. bills BTown every Monday for the prior week (Monday through Sunday) and BTown makes an immediate wire transfer. Wire transfers for January 20X5 are:

Date of Payment	Dollar Amount
January 5	$ 7,800
January 12	13,650
January 19	13,650
January 26	13,650

Phone service and internet service in the office and wifi on the buses is provided by a local company at the cost of $1000 per month beginning January 1, 20X5. The bill for January was received on February 3 with terms n/10 and paid on February 13. Utilities used for the month of January amounted to $3000, and a payment of $2500 was made on January 31.

Demand for the new bus service has been brisk since it is a cost-effective way for college students enrolled at a variety of colleges near Manchester, New Hampshire to travel back and forth to Boston. BTown wants to tap into this market in other locations in New England and intends to expand to several additional geographic areas within the next six months. BTown believes that the service will be even more popular if college students can use a purchase interface to quickly purchase tickets with funds loaded on their university student accounts, eliminating the need for a credit card. The CEO also believes demand will be further enhanced if customers can track the location of buses via an App. The CEO has hired a start-up company affiliated with a college in Boston to create the purchase interface and a GPS locater App for a total fee of $100,000, to be delivered for testing by the end of March, 20X5. Development of the software is quite doable and its use is expected to increase future revenue. The first progress payment of $20,000 was made on January 31, 20X5 for work performed to date to develop the software. The second progress payment of $40,000 is due on February 28, and another $30,000 is due on March 31. Testing of the software and determination of technological feasibility is expected to occur in early March, with release of the App in late March, 20X5. The last $10,000 is not paid until the software has been running successfully for one month, or at the end the April 20X5.

BTown uses straight line depreciation for all productive assets and follows USGAAP. Assume all long-term assets purchased are placed in service on January 1, 20X5. Ignore income taxes.

Specific Deliverables:

1. Prepare all journal entries in good form for the two-month period from November 1 through December 31, 20X4. Please prepare any adjusting journal entries in chronological order. The closing entry is not necessary.
2. Using the journal entries and the data provided by Aunt Martha, prepare an income statement, for the two months ended December 31, 20X4, and balance sheet at December 31, 20X4.
3. Prepare all the journal entries in good form for January 20X5, including any adjusting journal entries. Record one revenue entry, one entry for the purchase of diesel fuel, and one entry for the compensation to the bus drivers for the entire month.
4. Prepare an income statement for the month ended January 31, 20X5, and a balance sheet at January 31, 20X5.
5. Calculate the net increase in Cash during the period from the date the company was formed to the balance sheet date of January 31, 20X5. How much of this increase came from or was used by operating activities, how much from investing activities, and how much from financing activities?
6. Why is BTown's method of accounting for parts inventory appropriate? Discuss.
7. If BTown used IFRS instead of USGAAP, would the accounting for the software be the same or different as of January 31, 20X5? Explain.
8. BTown expects the Manchester routes to be at 85% capacity in February. Estimate net income for February. Assume all tickets are round trip and 50% are advance tickets (50% point of purchase) and that none of these 85% riders had a ticket before February (they all purchased their ticket via credit card in February). BTown expects to continue to run only 3 round trips/day in February. In addition, consider all estimable expenses but assume utilities, wi-fi, and parts used are the same as in January.

OUTCOMES

Student Survey and Teaching Suggestions

BTown was created to provide students with an understanding of measuring and recording accounting transactions, including more advanced transactions such as software costs. The case also requires students to compile the results of these transactions into financial statements. Students were asked to complete a voluntary anonymous survey after the cases were submitted. They were asked to answer all questions from their individual point of view and informed them their responses to the survey were confidential and results would be reported in the aggregate. The survey questions are attached at Appendix A. Results are summarized below. There were 73 students enrolled across two sections of the course and the response rate was high with 67 students filling out all or part of the survey.

Survey questions asked participants how successful the case had been at meeting the goals of the assignment. Responses to seven survey questions were recorded on a scale of one ("Strongly Disagree") to seven ("Strongly Agree") and tests of means/ medians were performed. Results confirmed that students reported a better understanding of basic and adjusting journal entries and their corresponding financial statements, felt more prepared identifying differences between accrual vs. cash and USGAAP vs. IFRS accounting treatments, and gained increased knowledge on creating net income projections. All test results were highly significant (t-value <.0001). In addition, students recommended this case to be used in future Intermediate Accounting courses (t-value <.0001). Overall, survey results confirmed that students gained a better understanding interpreting transactions and generating financial statements.

Examining the informal responses by students also provided additional insight into how BTown can be presented in a classroom setting. Question eight asked participants to include suggestions on how the case could be improved for future sections. While responses were overwhelmingly favorable, some students noted the case was lengthy. One potential suggestion would be to break out the case into multiple submissions with deliverables one through four in the first submission and five through eight in a second submission. Students would get feedback on the journal entries and could then proceed to more advanced financial statement analysis and income projections for February. Finally, a few students responded that the percent course grade for this case did not accurately match the time spent completing the project. As BTown was used as an

EXHIBIT 1
Student Surey Results

Survey Question	N	Mean	Median	Standard Deviation	Mean t-test (Ho = 3.5)	Different from Neutral Median Sign Test (Median = 3.5)
1. By completing this assignment, I gained a better understanding of how to analyze transactions and prepare journal entries.	67	5.5075	6	1.1854	13.86 <0.0001	29.5 <0.0001
2. By completing this assignment, I gained a better understanding of how to prepare adjusting journal entries and their role in accrual based financial accounting.	67	5.5970	6	1.1289	15.20 <0.0001	31.5 <0.0001
3. By completing this assignment, I gained a better understanding of how to prepare basic financial statements.	67	5.5224	6	1.2596	13.14 <0.0001	28.5 <0.0001
4. By completing this assignment, I gained a better understanding of the relationship between accrual and cash basis accounting.	67	4.5970	5	1.3823	6.50 <0.0001	17.5 <0.0001
5. By completing this assignment, I gained a better understanding of creating projections of future net income.	66	4.6818	5	1.5705	6.11 <0.0001	18 <0.0001
6. By completing this assignment, I gained a better understanding of GAAP and IFRS reporting for software development costs.	67	4.4925	5	1.6272	4.99 <0.0001	18.5 <0.0001
7. I would recommend the financial reporting project for future IFR1 classes.	67	5.1642	5	1.4522	9.38 <0.0001	24.5 <0.0001

introductory refresher in the first module of Intermediate Financial Accounting, it was only worth five percent of the final grade. While students saw value in completing BTown, a few did not feel the time spent was rewarded with enough credit. Therefore, future sections could award more credit for this assignment to better align with student expectations based on time spent.

Grading Rubric and Grade Distribution

A detailed Grading Rubric was used to grade each submission and it is attached as Appendix B. It is sufficiently detailed to act as a solution. In addition, a grade distribution has been included as Exhibit 2. Two sections of Intermediate Accounting (BUSACC-1204) completed this case in day (38 students) and evening (35 students) classes. While no specific part of the case was identified as being too difficult by students, it is important for instructors to not only thoroughly review completed submissions but to also provide adequate guidance throughout the process. For example, one misunderstood or incorrect journal entry could result in numerous point subtractions on other questions. One potential suggestion could be to provide summary financial statement tie numbers before submission so that students will have a better idea when a journal entry is incorrect or, as previously mentioned above, to have multiple graded submissions. Across both sections examined in this survey, approximately eighty percent of students received either an "A" or "B" grade. (See Exhibit 2 on the following page)

EXHIBIT 2

Grade Distribution

Section	Grade	N	Percentage
Day	A	10	26.32
	B	21	55.26
	C	7	18.42
	D	0	0.00
	Subtotal	38	100.00
Evening	A	13	37.14
	B	14	40.00
	C	6	17.14
	D	2	5.71
		35	100.00

CONCLUSION

This Case Study highlights a successful method of integrating experience-based learning in an undergraduate accounting course. Students are provided with a start-up company and asked to produce detailed financial statements from initial and adjusting journal entries. In addition, more advanced issues such as software development costs, USGAAP vs. IFRS accounting, and future net income projections are included to introduce students to real world issues facing companies. The Case Study is rich in detail and current content can be easily modified or other accounting issues can be added to avoid repetition in subsequent semesters. Survey results from two sections of an Intermediate Financial Accounting course (BUSACC 1204) provide confirmation that students generally believed the Case Study improved their learning across all questions asked. In addition, case grade distributions from both sections confirm understanding of the material as approximately eighty percent of students received an "A" or "B." Overall, the BTown Case Study can provide students in introductory to intermediate accounting courses with more active learning to supplement traditional lectures.

REFERENCES

Burch, G.F., Batchelor, J.H., Heller, N.A., Shaw, J., Kendall, W., & Turner, B. (2014). Experiential learning: what do we know? A meta-analysis of 40 years of research, *Developments in Business Simulation and Experiential Learning* 41, 279-283.

Kolb, D.A. (1984). *Experiential learning: Experience as the source of learning and development* (Vol. 1). Englewood Cliffs, NJ: Prentice-Hall.

Morgan, S., Martin, L., Howard, B., & Mihalek, P. (2005). Active learning: what is it and why should I use it? *Developments in Business Simulation and Experiential Learning* 32, 219-223.

APPENDIX A

Student Survey

1. BY COMPLETING THIS ASSIGNMENT, I GAINED A BETTER UNDERSTANDING OF HOW TO ANALYZE TRANSACTIONS AND PREPARE JOURNAL ENTRIES:

   Strongly Disagree *Strongly Agree*

   |---------------|---------------|---------------|---------------|---------------|---------------|

   1 2 3 4 5 6 7

2. BY COMPLETING THIS ASSIGNMENT, I GAINED A BETTER UNDERSTANDING OF HOW TO PREPARE ADJUSTING JOURNAL ENTRIES AND THEIR ROLE IN ACCRUAL BASED FINANCIAL REPORTING:

   Strongly Disagree *Strongly Agree*

   |---------------|---------------|---------------|---------------|---------------|---------------|

   1 2 3 4 5 6 7

3. BY COMPLETING THIS ASSIGNMENT, I GAINED A BETTER UNDERSTANDING OF HOW TO PREPARE BASIC FINANCIAL STATEMENTS:

   Strongly Disagree *Strongly Agree*

   |---------------|---------------|---------------|---------------|---------------|---------------|

   1 2 3 4 5 6 7

4. BY COMPLETING THIS ASSIGNMENT, I GAINED A BETTER UNDERSTANDING OF THE RELATIONSHIP BETWEEN ACCRUAL AND CASH BASIS ACCOUNTING:

   Strongly Disagree *Strongly Agree*

   |---------------|---------------|---------------|---------------|---------------|---------------|

   1 2 3 4 5 6 7

5. BY COMPLETING THIS ASSIGNMENT, I GAINED A BETTER UNDERSTANDING OF CREATING PROJECTIONS OF FUTURE NET INCOME:

   Strongly Disagree *Strongly Agree*

   |---------------|---------------|---------------|---------------|---------------|---------------|

   1 2 3 4 5 6 7

6. BY COMPLETING THIS ASSIGNMENT, I GAINED A BETTER UNDERSTANDING OF GAAP AND IFRS REPORTING FOR SOFTWARE DEVELOPMENT COSTS:

   Strongly Disagree *Strongly Agree*

   |---------------|---------------|---------------|---------------|---------------|---------------|

   1 2 3 4 5 6 7

7. I WOULD RECOMMEND THIS FINANCIAL REPORTING PROJECT FOR USE IN FUTURE IFR1 CLASSES:

   Strongly Disagree *Strongly Agree*

   |---------------|---------------|---------------|---------------|---------------|---------------|

   1 2 3 4 5 6 7

8. Briefly describe any suggestions you may have to improve the project.

STUDENT BACKGROUND INFORMATION

1. Gender: [ ] Identify as Female [ ] Identify as Male

2. Current level: [ ] Undergraduate (CBA) [ ] Graduate (MAcc) [ ] Non-Matriculated

3. Current Major(s). List all intended majors.

   ____

4. Were you previously enrolled at another institution prior to enrolling at Pitt? [ ] Yes [ ] No

5. What was your overall Pitt GPA at the start of the Spring 2016 semester?

   [ ] Below 2.6 [ ] 2.6-3.0 [ ]3.01 – 3.3 [ ] 3.31-3.6 [ ] 3.61 – 4.0

   [ ] I don't have a GPA - this is my first semester at Pitt

6. When did you take Introduction to Financial Accounting, the prereq for this course?

7. Did you take Introduction to Financial Accounting (BUSACC0030) at the College of Business Administration, University of Pittsburgh in Oakland?

   [ ] Yes [ ] No

8. Did you take any accounting courses in high school? [ ] Yes [ ] No

9. How many accounting courses (not including this course) have you taken since high school? ____________

10. Are you taking any other accounting courses this semester? [ ] Yes [ ] No

    If yes, what other accounting courses are you taking this semester? ________________

11. Did you work on this project with another student? [ ] Yes [ ] No

    If yes, *in your opinion* was the assignment designed to enable two people to share the work and contribute to the solution somewhat evenly?

    [ ] Yes [ ] No

12. Have you had prior accounting or finance related internship or work experience? [ ] Yes [ ] No

    If yes, were you responsible for any job tasks similar to those in this assignment (journal entries, etc.)?

    [ ] Yes [ ] No

THANK YOU FOR FILLING OUT THIS QUESTIONNAIRE!

APPENDIX B

Grading Rubric

<u>Part 1: November 1 – December 31, 20X4, Journal Entries</u>

Grading Grid: 13 Journal Entries, 2 points each (26 points total)

#	Date	Description			Comments	Points (2 pts each)
1	11/1/X4	Cash	500,000			
		Common Stock		50,000		
		APIC		450,000		
2	11/1/X4	Building	400,000			
		Land	100,000			
		Common Stock		50,000		
		APIC		450,000		
3	11/15/X4	Deposit(A)	100,000			
		Cash		100,000		
4	11/15/X4	Legal Expense	50,000			
		Legal Payable		50,000		
	11/30/X4	Legal payable	50,000			
		Cash		25,000		
		Common stock		2,500		
		APIC		22,500		
5	12/1/X4	Prepaid Advertising	1,000			
		Cash		1,000		
6	12/5/X4	Prepaid Svc Contract	3,600			
		Computer Eqpt	50,000			
		Cash		53,600		
7	12/15/X4	Supplies Expense	800			
		Account Payable		800		
8	12/20/X4	Building Improvements	80,000			
		Cash		80,000		
9	12/22/X4	Prepaid insurance	55,200			
		Cash		55,200		
10	12/31/X4	Advertising expense	8,000			
		Advertising payable		7,000		
		Prepaid Advertising		1,000		
11	12/31/X4	Utilities Expense	4,000			
		Utilities payable		1,000		
		Cash		3,000		
12	12/31/X4	Bookkeeping expense	2,000			
		Cash		2,000		
13	12/31/X4	Buses	4,000,000			
		Deposit		100,000		
		Note payable		3,900,000		

Total Points (Max 26) ______________________

Part 2: Financial Statements, 12/31/X4; 16 points total

Requirement	Points (2 pts each)
Total assets = $4,869,000	
Prepaid insurance properly split between current and long term	
Total Liabilities = $3,908,900	
Note Payable properly split between current and long term	
Total stockholders' Equity = $960,200	
Retained Deficit = Net Loss	
Balance sheet dated 12/31/X4	
Income statement for 2 months ended 12/31/X4	

Total Points (Max 16) ____________________________________

Part 3: January 20X5, Journal Entries

Grading Grid: 15 Journal Entries, 2 points each (30 points total)

#	Date	Description	Comments	Points (2 pts each)
1	1/5/X5	Parts Expense 38,710 Accounts payable 38,710		
2	1/10/X5	Accounts payable 800 Cash 800		
3	1/15/X5	Accounts Payable 38,710 Cash 38,710		
4	January, 20X	Cash 229,347 Credit card expense 1,153 Unearned Revenue 37,600 Earned Svc Revenue 192,900		
5	January, 20X	Fuel Expense 8,410 Cash 8,410		
6	January, 20X	Driver expense 60,450 Compensation Payable 11,700 Cash 48,750		
7	1/31/X5	Wifi Expense 1,000 Account Payable 1,000		
8	1/31/X5	Utilities expense 3,000 Cash 2,500 Utilities payable 500		
9	1/31/X5	Software devel expense 20,000 Cash 20,000		
10	1/31/X5	Deprec expense 18,667 Accum Deprec 18,667		
11	1/31/X5	Interest Expense 32,500 Interest payable 32,500		
12	1/31/X5	Computer Svc expense 300 Prepaid Svc Contract 300		
13	1/31/X5	Insurance Exp 2,300 Prepaid Insurance 2,300		
14	1/31/X5	Advertising Payable 7,000 Cash 7,000		
15	1/31/X5	Accounting expense 4,000 Acctg Exp Payable 4,000		

Total Points (Max 30) ______________________________

Part 4: Financial Statements, 1/31/X5; 8 points total

Requirement	Points (2 pts each)
Total assets = $4,869,000	
Prepaid insurance properly split between current and long term	
Total Liabilities = $3,908,900	
Note Payable properly split between current and long term	
Total stockholders' Equity = $960,200	
Retained Deficit = Net Loss	
Balance sheet dated 12/31/X4	
Income statement for 2 months ended 12/31/X4	

Total Points (Max 8) ______________________________

Part 5: Cash Flows; 8 points total

Requirement	Points (2 pts each)
Operating = $13,377	
Investing = $(230,000)	
Financing = $500,000	
Net increase in cash = $283,377	

Total Points (Max 8) ______________________________

Part 6: Accounting for Inventory (3 pts)

Reasonable discussion

Total Points (Max 3) ______________________________

Part 7: IFRS software development (3 pts)

Reasonable discussion

Total Points (Max 3) ______________________________

Part 8: Forecast Feb Income; 6 points total

1/2 point for each correct item in the Income Statement forecast;
possible 6.5 points, max 6 points.

Total Points (Max 6) ______________________________

TOTAL POINTS (100 max):