Part 1 - Case: French Institute Inc.

Questions 1 to 35 are based on this case and the remaining exam questions are independent of the case. Two marks for each correct answer.

Let's assume that you are perfectly fluent in French!

On December 1st 2018, you start a company called French Institute Inc. (FII) and deposit $5,000 in its newly opened bank account in exchange for 1,000 shares of stock. FII also receives and deposits, on that day, a loan of $5,000 from a very convenient lender, your mother. The loan will be fully repayable to your mom on November 30th, 2023. Meanwhile, you insist that FII will pay your mother (the lender) 0.5% of interest per month on the loan (or 6% per year) on the last day of each month. You quickly buy civil responsibility insurance for $600 payable immediately. This insurance contract covers FII for the next five years. As soon as possible on the same day, you go and buy FII $500 worth of supplies on account (mainly paper, pen, pencil and exercise books). By the end of the afternoon, you finalize the rental of a tiny office in North York and agree to pay $3,000 by transferring from FII's account right away, which will cover the rent due for the first three months of operations. Finally, before dinner time, you go and purchase $4,800 worth of equipment for FII which should be useful for four years and have a residual value of $1,200. The equipment sold to FII was at a bargain price because you agreed to pay immediately the entire selling price. Happily, equipment delivery was free and immediate. December 1st was a long and exhausting, but very thrilling day!

During December 2nd, you set everything up for the next day. You then realize that starting a business is more work than it seems! December 2nd is also your mother's birthday. On that same night, you celebrate your mother's birthday and buy her a $100 flower bouquet with your last personal savings. Fortunately, you mother insists on paying for dinner and for a $150 bottle of Champaign for the two of you because it is her 60th anniversary and she is delighted to celebrate your new entrepreneurial adventure.

December 3rd is the "grande ouverture" (grand opening). You welcome your first client, Johnny Spanish, and he agrees to pay you a fixed fee of $1,200, which covers private lessons in the second week of each month for the next six months, including December. Half of this fee was paid immediately, and the remainder will be due after three months if the client is satisfied and decides to actually attend the last three months of lessons. The December lessons were scheduled to be completed by December 14th.

You always knew you would take care of FII's accounting yourself because you are quite good at it. On that date, after a bit of thinking, you decide on a FII accounting policy whereby revenue is recognized at the end of a week as soon as training sessions are delivered in the week.

Things go well. On December 5th and December 6th, you spend your days in the office preparing Mr. Spanish's classes but no client comes. This waiting period gave you another idea. In the evening of December 6th, you go to a specialized French library and purchase for FII an inventory of 30 textbooks for $150 cash in total that will be for sale to customers who do not take French lessons from FII.

On the 7th in the morning, five clients come and purchase an accelerated intensive 2-week program in anticipation of going to Paris for a visit. They each pay $475 on the spot, with the other half payable next month. The intensive program takes all your time for the following two weeks (from Monday December 10th to Friday December 21st, inclusively) and you cannot welcome other clients before the 22nd of December. Of course, the December lessons to Johnny Spanish were delivered as promised, however. On December 22nd, you hire a janitor because you are too busy to do the cleaning yourself (you have the accounting to care about and that is absolutely enough!!).

The janitor agreed with you to a fee of $100 per visit and demanded an upfront/advanced payment of two visits ($200) to reserve timeslots for FII. The janitor cleaned FII's office on December 23rd and will come back on January 15th.

On December 24th a quite obviously desperate customer purchased three French textbooks for $30 each as last-minute Christmas presents. Payment was made with a personal cheque.

December 25th was a very cold day, with temperature reaching -25 degrees Celsius.

On December 27th, half of FII supplies purchased on account are paid. On December 31st, the bank automatically withdraws monthly fees of $40 from FII's chequing account. On the night of December 31st, a count shows that only one tenth of your supplies are left. During the same night, you fulfill FII's obligations for the month and instead of partying like in the old days, you prepare your financial statements using the matching principle.

The first month of operations went well and all of the clients who had paid in advance received their lessons as planned because there were no cancellations and no re-scheduling.

Required:

1) **Do transaction analyses, prepare balance sheet and income statement on the scratch papers attached below, and answer questions for this section accordingly on an ACCRUAL Basis for this case using the following chart of accounts.**

ASSETS	LIABILITIES & CAPITAL	REVENUES & COGS	EXPENSES
Cash*	Accounts Payable (AP)	Services Revenue	Bank Fee Expense
Prepaid Maintenance	Loan Payable	Book Sales Revenue	Maintenance Expense
Prepaid Insurance	Advances from Customers	Cost of Goods Sold	Insurance Expense
Equipment	Interest Payable		Interest Expense
Supplies	Office Rent Payable		Depreciation Expense
Accounts Receivable (AR)	Capital Contribution		Supplies Expense
Prepaid Rent			Office Rent Expense
Accumulated Depreciation-Equipment			
Book Inventory			

* Use only one account for all cash/cheque/transfer transactions

It is estimated that you will need 60 minutes to prepare the Journal Entries, T Accounts, a Trial Balance and Income Statement and Balance Sheet