

Case Study 3: *Preparing Financial Statements*

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Instructions:

1. Print and read the following case study.
2. On your own, complete the **Accounting Application** questions.
3. As a class, complete the **Class Interaction and Discussion** questions.
4. Optional: Complete the **Small Group Extension Activity** and **Internet Exploration and Research Activity**.
5. Complete the **Summary Questions**.

Objectives:

After completing the following case study, you will be able to:

- Complete a work sheet and financial statements for a service business owned by a sole proprietor
 - Explain why businesses prepare financial statements
 - Discuss why someone trying to choose a career would go to a career consultant
 - Research a professional organization on the Internet
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Study Tips:

Complete this case study after Chapter 9, Glencoe Accounting, First-Year Course.
Approximate time to complete: 1 1/2 hours.

Overview:

Unhappy with her job as a telecommunications consultant, Cathy Luce started a new business called Magical Meals. For \$300 Ms. Luce plans customized menus based on her clients' needs. She creates vegetarian meals, special diets for those with health problems, or menus for families with little time for cooking. She sets aside a day for each client in which she packs up her red Alpha Romeo with pots and utensils, shops for food, and cooks 20 entrees in her client's home. Then she labels and either refrigerates or freezes the entrees and takes the dirty pans home with her. Cathy requires that payment be made on the day services are rendered.

Before changing careers, Ms. Luce hired a career consultant. Together they decided that a career in cooking looked viable. First she considered being a restaurant chef. Then, through the Internet, she found the U.S. Personal Chef Association. "I called them that day. I knew without a doubt that that was what I am supposed to do," Ms. Luce says.

Ms. Luce took a course from the U.S. Small Business Administration on how to start a business, paid \$2,000 in up-front costs, and determined the name for her business. By cooking in her clients' homes, she avoided purchasing expensive equipment, such as extra sinks, to meet state requirements for commercial kitchens.

Accounting Applications:

Instructions: Now that you have reviewed the case study above, answer the following questions on your own.

Prepare the appropriate end-of-month reports for Magical Meals for the month ending November 30 this year using the following account names and balances. *(Please note: The following account names and balances were created for this case study. Only the name of the business is real.)*

Cash in Bank	\$3,750.00
Computer Equipment	4,897.00
Cooking Equipment	1,281.00
Accts. Pay. —The Computer Store	1,050.00
Accts. Pay. —The Green Grocers	124.00
Cathy Luce, Capital	6,748.00
Cathy Luce, Withdrawals	3,000.00
Fees	6,500.00
Advertising Expense	75.00
Food Expense	1,244.00
Utilities Expense	175.00

Using blank accounting stationery, complete the following for Magical Meals. (Select and print the accounting forms from the Accounting Forms menu, or your teacher will provide the forms to you.)

1. A work sheet

Magical Meals								
Work Sheet								
For the Month Ended November 30, 20--								
ACCT. NO.	ACCOUNT NAME	TRIAL BALANCE		INCOME STATEMENT		BALANCE SHEET		
		DEBIT	CREDIT	DEBIT	CREDIT	DEBIT	CREDIT	
1								1
2								2
3								3
4								4
5								5
6								6
7								7
8								8
9								9
10								10
11								11
12								12
13								13
14								14
15								15
16								16
17								17
18								18
19								19

Optional Small Group Extension Activity:

Instructions: Break into pairs and complete the following activity.

Role-play a consultation with a career consultant. Write down the questions a consultant might ask someone who is trying to choose a career. Discuss the possible benefits of using a career consultant.

Optional Internet Exploration and Research Activity:

Instructions: Use your favorite search engine to research the following activity.

Locate the home page for the U.S. Personal Chef Association. What is a Personal Chef Certificate? What is required to obtain one?

Summary Questions:

1. What are financial statements? Where does the preparation of financial statements fall in the accounting cycle?

2. When does a net loss occur?

3. What information does a balance sheet report about a business?
