

Juan Alvarez began his new business, called Alvarez Systems Company, on January 1, 19xx. The company writes computer programs with special applications for businesses that own small computers. During the first six months of operation, the business was so successful that Alvarez had to hire new employees on several occasions. Yet, he continually had to put off creditors because he lacked the funds to pay them. He wants to apply for a bank loan, but after preparing a statement showing the totals of receipts of cash and payments of cash, he wonders whether a bank will make a loan to him on the basis of what seem to be poor results. Deciding that he needs some accounting help, Alvarez asks you to review the statement and the company's operating results.

Alvarez Systems Company  
Statement of Cash Receipts and Payments  
For the Six Months Ended June 30, 19xx

Receipts from

Investment by Juan Alvarez	\$ 45,000
Customers for Programming Services Provided	<u>75,600</u>
Total Cash Receipts	<u>\$120,600</u>

Payments for

Wages	\$29,340	
Insurance	7,200	
Rent	12,600	
Supplies	5,940	
Office Equipment	18,600	
Computer Rental	24,000	
Maintenance	2,700	
Service Van	15,000	
Oil and Gas Reimbursements	2,070	
Utility	1,620	
Telephone	<u>900</u>	
Total Cash Payments		<u>119,970</u>
Bank Balance		<u><u>\$ 630</u></u>

## PROBLEM I CONTINUED

After verifying the information in Alvarez's statement, you assemble these additional facts about Alvarez Systems Company:

- a. In addition to the amount received from customers, programming services totaling \$29,100 have been performed but are not yet paid for.
- b. Employees have been paid all the wages owed to them except for \$1,050 earned since the last payday. The next regular payday is July 3.
- c. The insurance account represents a two-year policy purchased on January 3.
- d. The Rent account represents rent of \$1,800 per month, including the rent for July.
- e. In examining the expenditures for supplies, you find invoices for \$1,950 that have not been paid, and an inventory reveals \$2,625 of unused supplies on hand.
- f. The office equipment is fully paid for. You estimate it will last five years and be worthless at the end of that time.
  
- g. The computer rental agreement provides for a security deposit of \$6,000 plus monthly payments of \$3,000.
- h. The maintenance account represents a one-year maintenance agreement, paid in advance on January 2.
- i. The Service Van account represents the down payment on a van purchased on June 29 for \$45,000. Before this purchase, the company had reimbursed employees for oil and gas when they used their own cars for business. A study of the documents shows that \$360 in employee oil and gas receipts still must be reimbursed.
- j. The utility and telephone expenses are paid through the end of June.

PREPARE AN INCOME STATEMENT FOR SIX MONTHS

ENDED JUNE 30, 19XX AND A BALANCE SHEET

AS OF JUNE 30, 19XX. (T-ACCOUNTS

PROVIDED MUST BE COMPLETED).