

CASE - MONEY CARE COMPANY

BDC2.2 – Chapter 2 Financial Statements – Financial Accounting by R. Narainswamy

On August 1, 20XX, Ajay and Jeevan quit as senior executives in a mutual fund to set up Money Care Company, an investment advisory service. Each of them deposited ₹ 50,000 in Money Care's bank account in exchange for 5,000 shares. Also, they raised an interest-free loan of ₹20,000 for the company from their friend. They rented an office for the company in the city, costing ₹5,000 per month payable on the last day of the month. At the landlord's insistence, they paid a deposit of ₹70,000, refundable on Money Care vacating the place.

They leased two computers for one year on a monthly rental of ₹6,000 per computer and subscribed to a financial database for a fee of ₹11,000 per month. Computer rental and database fee were payable at the beginning of the month. They appointed a secretary on a monthly salary of ₹9,000 and an assistant on a monthly salary of ₹5,000.

Depending on their credit rating, Money Care's customers paid in one of the following ways:

1. Before receiving service.
2. Immediately on receiving service.
3. Within one month after receiving service.

During August, Money Care provided services for ₹70,800 and raised invoices with the following payment terms:

- Fifteen customers with invoices totalling ₹62,100 could pay until end of September.
- Two customers with invoices totalling ₹8,700 had to pay immediately.

Money Care's other transactions in August were as follows:

- Paid computer rental, database fee, office rent and salaries as agreed.
- Received from customers amounts totalling ₹24,100 including ₹15,400 from customers who chose to pay early.
- Paid for office supplies costing ₹1,800 but did not use them.
- Received ₹9,000 from a customer for service to be provided in September.
- Earned interest income of ₹460 on the bank account.

Required

1. Prepare Money Care's financial statements for August.
2. What do you think of the company's financial performance

FINANCIAL STATEMENTS

(i) CASH FLOW STATEMENT Of Money Care Company for the period ending 31.08.20XX

Opening Balance of Cash.....NIL

(Since the business started operation only on August 01, 20XX there cannot be any previous period closing cash balance which can be shown as an opening balance here – whatever cash movements were made by the business can be segregated to three distinct activities, which are as follows)

Add, Cash flows from Operating Activities

Inflows from sales	₹24,100	
Inflows from receipt in advance	9,000	
Outflows through Payment of rental/ database/ salary	(42,000)	
Outflows through purchase of inventory of office supplies	(1,800)	
<i>Net cash outflows from Operating Activities</i>		₹(10,700)

Add, Cash flows from Investing Activities

Inflows in the form of Interest on Investment	₹460	
Outflows in the form of Investment	(70,000)	
<i>Net cash outflows from Investing Activities</i>		₹(69,540)

Add, Cash flows from Financing Activities

Inflows in the form of Owners' Equity	₹1,00,000	
Inflows in the form of Outsiders' Equity	20,000	
Outflows under Financing activity	NIL	
<i>Net cash outflows from Financing Activities</i>		₹1,20,000

Closing Balance of Cash on 31.08.20XX.....₹39,760
(To be shown in the Balance Sheet on 31.08.20XX)

(ii) BALANCE SHEET As on 31.08.20XX

Assets	=	Liabilities + OE	
Cash	39,760	Unearned Revenue	9,000
Debtors	46,700	Borrowed Fund	20,000
Inventory	1,800	Equity	
Deposits	70,000	Capital: 1,00,000	
	-----	RE	29,260
	<u>1,58,260</u>		<u>1,29,260</u>
			<u>1,58,260</u>