

## Core 1 — Week 5 Practice Case — Ginny's Professional Print Shop Ltd.

### Case (60 minutes)

It is February 15, 20X8, and you, CPA, a senior at a small CPA firm, are going over your notes from your afternoon meeting with Scott Ginny. Scott came to your office looking for help with his business, Ginny's Professional Print Shop Ltd. (GPP). Scott is the owner-manager of GPP, a copy and print shop located in Halifax. Scott recently approached his bank because he is considering applying for a loan, and he has now come to you for assistance. Summary notes of your discussion with Scott are included in Appendix I.

At his last meeting with the bank, the bank manager told Scott that "GPP must include financial statements prepared in accordance with Generally Accepted Accounting Principles (GAAP)" for the year ended December 31, 20X7, with the loan application. Scott provided you with the draft income statement for the years ended December 31, 20X7 and 20X6 (Appendix II).

The partner in charge has asked you to provide a memo to Scott discussing the financial reporting framework GPP should follow as well as an analysis of the financial reporting issues that need to be resolved for GPP to be GAAP compliant. The partner would also like you to prepare a revised income statement for the year ended December 31, 20X7, based on the information you have collected. A balance sheet does not need to be prepared for now. The partner has advised that GST is being handled by the tax partner so you can disregard it.

Lastly, you have been asked by the partner to draft a memo to Scott offering personal tax advice from your findings.

***Your response, not including any Excel worksheets (if applicable), should not exceed 1,800 words.***

## Appendix I

### Summary notes of your discussion with Scott Ginny

GPP provides copying and small print job services from a single location close to a university. The business was organized in January 20X6 to meet the needs of the university and students in the area. At the time, there were no printing businesses in the area, and Scott saw this as an opportunity to become his own boss after many years of working as a mechanic for a local bus company.

Scott personally invested funds in share capital of GPP. With this money, Scott purchased the computers, printers, copiers, and scanners needed to provide the full range of quality services that he thought his customers would need. He also purchased the furniture and fixtures needed to set up a functional and attractive space for the business.

Scott's wife, Allison, has been a stay-at-home mom for the last 10 years. She is happy to help with the business and performs GPP's accounting and prepares yearly income statements. GPP has not paid her anything for her services.

Scott is unsure why the bank needs financial statements in compliance with GAAP. He feels the current income statement and a cash flow projection should be sufficient, given that GPP is such a small organization. Allison suggested that if GPP must prepare financial statements, it should do so under International Financial Reporting Standards (IFRS). Allison told Scott that she did not understand all the factors that should be considered when choosing an accounting framework, but that she prefers IFRS as it appears to have several free online resources available.

## Appendix I (continued)

### Summary notes of your discussion with Scott Ginny

Allison records GPP's revenue and expenses by reviewing the company's monthly bank statement in conjunction with cancelled cheques. Amounts owed by customers are tracked at the time of delivery on a designated sheet of paper kept by the cash register. As cash is received, the related customer's balance is reduced. On December 31, 20X7, there was a balance of \$16,200 still receivable from customers. On December 31, 20X6, there was a balance of \$11,505.

When Scott and Allison are in the store, they are the only ones who operate the register. Scott admits that, because he is in too much of a hurry, he sometimes puts the cash in his pocket rather than take the time to ring up the sale. Having cash in hand allows him to pay his babysitter and other personal expenses. Though it was difficult for him to be certain, Scott estimated that transactions worth about \$45,000 each year have been handled in this way. Scott confirmed that he has not filed a personal tax return since he started GPP because he has not taken a salary.

The amount of inventory on hand at the end of each year is counted so that Scott can get a clear idea of what he has on hand. Scott determined the value of the inventory on December 31, 20X7 and 20X6, by using the list of what was in the stock room on these dates and applying prices from the most recent supplier price lists. On December 31, 20X6, GPP had inventory of \$8,200, and on December 31, 20X7, the inventory balance was \$12,222. This has not been recorded in the financial statements but Scott likes to know for himself.

**Appendix II****Ginny's Professional Print Shop Ltd.****Draft income statement**

For the year ended December 31

	<b>20X7</b>	<b>20X6</b>
Sales	\$435,575	\$336,667
Cost of merchandise sold	124,984	101,000
Selling, general, and administrative expenses	68,804	41,100
Salaries and wages	90,099	87,740
Computers, printers, copiers, and scanners	15,000	55,000
Furniture and fixtures	—	15,000
Advertising and promotion	34,727	29,503
Utilities	18,300	17,900
Bank charges	2,000	1,500
Rent	22,000	22,000
Other expenses	16,618	17,443
	<u>392,532</u>	<u>388,186</u>
Net income (loss)	<u>\$ 43,043</u>	<u>\$ (51,519)</u>