

Solutions to Group Projects – Chapter 1: Accounting and the Business Environment

Project 1

You are promoting a concert in your area. Your purpose is to earn a profit, so you will need to establish the business. Assume you organize as a proprietorship.

1. Make a detailed list of ten factors you must consider to establish the business.

Factors to consider in establishing the business:

1. How to organize the business—as a proprietorship, a partnership, or a corporation (assume you have decided to organize as a proprietorship)
2. Where to locate the headquarters of the business
3. How much of your own time and money to commit to the business
4. How to finance the business—your own personal money or borrowed money
5. How many people to employ for the business
6. How to measure the business's success or failure. How to account for the assets, liabilities, and operations of the business.
7. What type of music to feature: What age group or interest group to appeal to
8. Whether to sell concessions (food, drinks, T-shirts, and so on) yourself or to arrange for outsiders to sell concessions at the concert
9. How to advertise the business (newspapers, radio, posters)
10. Whether to sponsor the concerts yourself or to arrange for corporate or charitable organizations to sponsor the concerts

Note: Student answers may vary.

2. Describe ten of the items your business must arrange in order to promote and stage the concert.

1. Which band (or bands) to feature at the concerts
2. How much and when to pay the performers (flat rate or a percentage of gate receipts)
3. Where to stage the concerts and how to pay for the site rental
4. Need for city or county permits to stage a concert
5. How to ensure security at the concert
6. How to get people to come to the concert. How to advertise the concerts (newspapers, radio, posters, or other) and how much to pay for advertising
7. How to offer concessions (buy and sell them yourself or arrange for outside concessionaires). If outsiders, how will they be compensated—keep their own revenues or share them with you?

8. Need for traffic control if the crowd disrupts city traffic
9. Weather considerations if the concert is staged outdoors
10. Timing of the concert in relation to other events in the area at the time

Note: Student answers may vary.

3. Prepare your business's income statement, statement of owner's equity, and balance sheet on August 31, 2014, immediately after the concert and before you have had time to pay all the business's bills and to collect all receivables. Use made-up amounts, and include a complete heading for each financial statement. For the income statement and the statement of owner's equity, assume the period is the three months ended August 31, 2014.

Student answers will vary.

4. Assume that you will continue to promote concerts if the venture is successful. If it is unsuccessful, you will terminate the business within three months after the concert. Discuss how you will evaluate the success of your venture and how you will decide whether to continue in business.

Evaluate the success of the business by its

- Net income or net loss for the period, as reported on the income statement
- Financial position at the end of the period, as reported on the balance sheet

Specifically, you hope to earn a net income, and you hope to end the period with assets far in excess of your liabilities. Finally you also need cash to continue in business.

Project 2

You are opening a pet kennel. Your purpose is to earn a profit, so you will need to establish the business. Assume you organize as a corporation.

1. Make a detailed list of ten factors you must consider to establish the business.

Factors to consider in establishing the business:

1. How to organize the business—as a proprietorship, a partnership, or a corporation (assume you have decided to organize as a proprietorship)
2. Where to locate the business
3. How much of your own time and money to commit to the business
4. How to finance the business—your own personal money or borrowed money
5. How many people to employ for the business

6. How to measure the business's success or failure. How to account for the assets, liabilities, and operations of the business.
7. What type of animals to board (dogs only, dogs and cats, birds, reptiles, and so on)
8. Whether to sell pet foods, toys, and other supplies
9. Whether to offer obedience lessons and other pet training
10. How to advertise the business (newspapers, radio, posters)

Note: Student answers may vary.

2. Identify ten or more transactions that your business will undertake to open and operate the kennel.

1. Invest money to start the business
2. Purchase land and a building
3. Renovate the building to make it suitable for a kennel
4. Purchase pet food and other supplies that will be needed to operate a kennel
5. Advertise the business
6. Earn service revenue by keeping pets
7. Pay utility bills
8. Use pet food and other supplies to take care of pets
9. Pay the wages of an employee
10. Borrow money if necessary
11. Withdraw cash for personal living costs

Note: Student answers may vary.

3. Prepare the kennel's income statement, statement of retained earnings, and balance sheet at the end of the first month of operations before you have had time to pay all the business's bills. Use made-up amounts, and include a complete heading for each financial statement. Date the balance sheet as of September 30, 2014.

Student answers will vary.

4. Discuss how you will evaluate the success of your business and how you will decide whether to continue its operation.

Evaluate the success of the business by its

- Net income or net loss for the period, as reported on the income statement
- Financial position at the end of the period, as reported on the balance sheet

Specifically, you hope to earn a net income, and you hope to end the period with assets far in excess of your liabilities. Finally you also need cash to continue in business.