Tecumseh Café (A)

On March 31, 2015, the partnership that had been organized to operate the Tecumseh Café was dissolved under unusual circumstances, and its connection with its dissolution , preparation of a balance sheet became necessary.

The partnership was formed by Mr. and Mrs. Frank Rayburn and Mrs. Grace Harris, who had become acquainted while working in a Portland, Oregon, restaurant. On November 1, 2014, each of the three partners contributed $5,000 cash to the partnership. The Rayburns’ contribution represented practically all of their savings. Mrs Harris’ payment was the proceeds of her late husband’s insurance policy.

On that day also the partnership signed a one year lease to the Tecumseh Café, located in a nearby recreational area. The monthly rent on the café was $600. They were attracted to this facility in part because there were living accommodations on the floor above the restaurant.. One room was occupied by the Rayburns and another by Mrs. Harris

They borrowed $6,000 from a local bank, and used this plus $12,000 of partnership funds to buy out the previous operator of the café. Of this amount, $17,000 was for equipment, and $1,000 was for food and beverages then on hand. The partnership paid $ 240 for local operating licenses good for one year beginning November 1, and paid $500 for a new cash register. The remainder of the $21,000 was deposited in a checking account.

The partners opened the restaurant shortly after November 1, Mr. Rayburn was the cook, and Mrs. Rayburn and Mrs. Harris waited on customers. Mrs. Rayburn also ordered the food, beverages, and supplies, operated the cash register, and was responsible for the checking account.

The restaurant opened throughout the winter season of 2014-2015. It was not very successful. On the morning of March 31, 2015, Mrs Rayburn discovered that Mr. Rayburn and Mrs. Harris had disappeared. Mrs. Harris had taken all her possessions, but Mr. Rayburn had left behind most of his clothing, presumably because he could not remove it without warning Mrs. Rayburn. The new cash register and its content were also missing. Mrs Rayburn concluded that the partnership was dissolved. (The court subsequently affirmed that the partnership was dissolved as of March 31.)

Mrs. Rayburn decided to continue operating the Tecumseh Café. She realized that an accounting would have to be made as of March 31, and called in Frank Whittaker, an acquaintance who was knowledgeable about accounting.

In response to Mr. Whitaker questions, Mrs. Rayburn said that the cash register had contained $110, and that the checking account balance was $368. Ski instructors who were permitted to charge their meals had run up accounts totalling $353. (these accounts subsequently were paid in full). Tecumseh Café owed suppliers amounts totalling $476. Mr. Whittaker estimated that depreciation on the assets amounted to $800.

Food and beverages on hand were estimated to be worth $800. During the period of its operation, the partners drew salaries at agreed upon amounts, and these payments were up to date. The clothing that Mr. Rayburn left behind was estimated to be worth $300. The partnership had also repaid $500 of the bank loan.

Mr. Whittaker explained that in order to account for the partners’ equity, he would prepare a balance sheet. He would list the items that the partnership owned as of March 31, subtract the amounts that it owed to outside parties, and the balance would be the equity of the three partners. Each partner would be entitled t one third of this amount.

Questions:

1. Prepare a balance sheet for the Tecumseh Café as of November 2 , 2014.

2. Prepare a balance sheet as of March 31, 2015.

3. Disregarding the marital complications, do you suppose that the partners received the equity determined in Question2?Why?

Tecumseh Café (B)

In addition to preparing the balance sheet described in Tecumseh Café (A). Mr. Whittaker, the accountant agreed to prepare an income statement. He said that such a financial statement would show Mrs. Rayburn how profitable operations had been, and thus help her to judge whether it was worthwhile to continue operating the restaurant.

In addition to the information given in the (A) case Mr. Whittaker learned that cash received from customers through March 31 amounted to $13,139 and that cash payments were as follows:

Monthly payments to partners $6,300

Wages to part-time employees 1,315

Interest 150

Food and beverage suppliers 2,615

Telephone and electricity 863

Miscellaneous 178

Rent payments 3,000

Questions:

1. Prepare an income statement.

2. What does this income statement tell Mrs. Rayburn?