

Assume that you are interested in buying World.com Advertising. You obtain the most recent monthly trial balance, which follows. Revenues and expenses vary little from month to month, and January is a typical month. Your investigation reveals that the trial balance does *not* include monthly revenues of \$3,800 and expenses of \$1,100. Also, if you were to buy World.com Advertising, you would hire a manager so you could devote your time to other duties. Assume that this person would require a monthly salary of \$5,000.

WORLD.COM ADVERTISING Trial Balance January 31, 2012			
		Balance	
	Account Title	Debit	Credit
	Cash	\$ 9,700	
	Accounts receivable	14,100	
	Prepaid expenses	2,600	
	Building	221,300	
	Accumulated depreciation		\$ 68,600
	Accounts payable		13,000
	Salary payable		
	Unearned service revenue		56,700
	Lee Nicholas, Capital		110,400
	Lee Nicholas, Withdrawals	9,000	
	Service revenue		12,300
	Rent expense		
	Salary expense	3,400	
	Utilities expense	900	
	Depreciation expense		
	Supplies expense		
	Total	\$261,000	\$261,000

#### Requirements

1. Assume that the most you would pay for the business is 20 times the monthly net income *you could expect to earn* from it. Compute this possible price.
2. Nicholas states that the least he will take for the business is an amount equal to the business's owner's equity balance on January 31. Compute this amount.
3. Under these conditions, how much should you offer Nicholas? Give your reason. (Challenge)

**Case 2.** One year ago, Tyler Stasney founded Swift Classified Ads. Stasney remembers that you took an accounting course while in college and comes to you for advice. He wishes to know how much net income his business earned during the past year in order to decide whether to keep the company going. His accounting records consist of the T-accounts from his ledger, which were prepared by an accountant who moved to another city. The ledger at December 31 follows. The accounts have *not* been adjusted.

Stasney indicates that at year-end, customers owe him \$1,600 for accrued service revenue. These revenues have not been recorded. During the year, Stasney collected \$4,000 service revenue in advance from customers, but he earned only \$900 of that amount. Rent expense for the year was \$2,400, and he used up \$1,700 of the supplies. Stasney determines