Copies Express was incorporated on November 20, 2009, and began operating on January 2, 2010. The balance sheet as of the beginning of operations is shown in Exhibit 1.

In preparing financial statements for the first year of operations, the accountant reviewed the record of cash receipts and cash disbursements for Copies Express. This information appears in Exhibit 2.

In addition, the accountant examined certain other information relative to operations. These additional items appear in Exhibit 3.

**Exhibit 1**

Balance Sheet

As of January 2, 2010

*Assets*

Cash $2,000

Supplies 24,400

Building and equipment 300,000

Land 12,000

Total 338,400

*Liabilities and Owners' Equity*

Accounts payable $10,400

Bank loan 24,000

Capital stock 304,000

Total 338,400

**Exhibit 2**

Cash Receipts and Disbursements: 2010

*Cash receipts:*

Cash Sales $176,450

Collect accounts receivable 64,750

Total 241,200

*Cash disbursements:*

Wages and salaries $85,750

Heat, light, power 15,000

Additional supplies 52,600

Selling and administration 28,375

Interest (Note 1) 2,880

Payment - bank loan (12/31) 12,000

Payment - accounts payable 10,400

Total 207,005

**Exhibit 3**

Other information relative to operations

1.) At the end of 2010, Copies Express owed $ 9,875 to suppliers for the purchase of photocopy supplies for which it had not yet paid.

2.) The yearly depreciation expense on the buildings and equipment was $ 15,000.

3.) At the end of 2010, Copies Express was owed $ 11,000 for copying services by customers who had not yet paid. Copies Express expected that all of these customers would pay within 30 days.

4.) An inventory taken of the supplies at year-end revealed that the year’s cost of supplies was $60,250.

5.) Income taxes for 2010 were expected to be $ 11,593. They were unpaid as of December 31, 2010.

**Questions**

1. Prepare an income statement for 2010 and a balance sheet as of December 31, 2010.

2. Be prepared to explain the derivation of each number of these financial statements.