**CP2-1 Determining Financial Statement Effects of Various Transactions**

Lester’s Home Healthcare Services (LHHS) was organized on January 1, 2005, by four friends.

Each organizer invested $10,000 in the company and, in turn, was issued 8,000 shares of stock. To

date, they are the only stockholders. During the first month (January 2005), the company had the

following six events:

*a.* Collected a total of $40,000 from the organizers and, in turn, issued the shares of stock.

*b.* Purchased a building for $65,000, equipment for $16,000, and three acres of land for $12,000;

paid $13,000 in cash and signed a note for the balance, which is due to be paid in 15 years.

*c.* One stockholder reported to the company that 500 shares of his Lester’s stock had been sold

and transferred to another stockholder for $5,000 cash.

*d.* Purchased supplies for $3,000 cash.

*e.* Sold one acre of land for $4,000 cash to another company.

*f.* Lent one of the shareholders $5,000 for moving costs, receiving a signed six-month note from

the shareholder.

***Required:***

**1.** Was Lester’s Home Healthcare Services organized as a partnership or corporation? Explain

the basis for your answer.

**2.** During the first month, the records of the company were inadequate. You were asked to

prepare the summary of the preceding transactions. To develop a quick assessment of their

economic effects on Lester’s Home Healthcare Services, you have decided to complete the

spreadsheet that follows and to use plus (\_) for increases and minus (\_) for decreases for

each account. The first transaction is used as an example.

**Stockholders’**

**Assets** \_ **Liabilities** \_ **Equity**

**Notes Notes Contributed Retained**

**Cash Supplies Receivable Land Building Equipment Payable Capital Earnings**

(*a*) \_ 40,000 \_ \_40,000

**3.** Did you include the transaction between the two stockholders—event *c*—in the spreadsheet?

Why?

**4.** Based only on the completed spreadsheet, provide the following amounts (show

computations):

*a.* Total assets at the end of the month.

*b.* Total liabilities at the end of the month.

*c.* Total stockholders’ equity at the end of the month.

*d.* Cash balance at the end of the month.

*e.* Total current assets at the end of the month.

**5.** As of January 31, 2005, has the financing for LHHS’s investment in assets primarily come

from liabilities or stockholders’ equity?