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| MC1 MATCHA CREATIONS |

**(a) Mei-ling has a choice between a sole proprietorship and a corporation. A partnership is not an option since she is the sole owner of the business.**

 **A proprietorship is the easiest to create and operate because there
are no formal procedures involved in creating the proprietorship. However, if she operates the business as a proprietorship she will personally have unlimited liability for the debts of the business. Operating the business as a corporation would limit her liability to her investment in the business. Mei-ling will in all likelihood require the services of a lawyer to incorporate. Costs to incorporate as well as additional ongoing costs to administrate and operate the business as a corporation may be costly.**

 **My recommendation is that Mei-ling choose the corporate form of business organization. If she expands the business after graduation, she can raise additional capital by issuing more shares. In addition, she limits her liability to her investment in the business. If she decides to transfer ownership to another student, she can do so without dissolving the corporation.**

**MC1 (Continued)**

(b) Yes, Mei-ling will need accounting information to help her operate her business. She will need information on her cash balance on a daily or weekly basis to help her determine if she can pay her bills. She will need to know the cost of her services so she can establish her prices. She will need to know revenue and expenses so she can report her net income for corporate income tax purposes, on an annual basis. If she borrows money, she will need financial statements so lenders can assess the liquidity, solvency, and profitability of the business. Mei-ling would also find financial statements useful to better understand her business and identify any financial issues as early as possible. Monthly financial statements would be best because they are more timely, but they are also more work to prepare.

**(c) Assets: Cash, Accounts Receivable, Supplies, Equipment, Prepaid Insurance**

 **Liabilities: Accounts Payable, Unearned Service Revenue, Notes Payable**

 **Equity: Share Capital—Ordinary, Retained Earnings, Dividends**

 **Revenue: Service Revenue**

 **Expenses: Advertising Expense, Supplies Expense, Utilities Expense, Depreciation Expense**

**(d) Mei-ling should have a separate bank account. This will make it easier to prepare financial statements for her business. The business is a separate entity from Mei-ling and must be accounted for separately.**