

Task 1 – Uptown Hair Salon

Released: Tuesday, October 12 at 9:00 a.m.

Due: Sunday, October 18, at 6:00 pm.

Submission: Your answers must be typed and submitted in **WORD** through the Assignment tab on the course OWL site. Do not submit as a pdf. Turn-It-In will be used. A cover page must be used that includes the name(s) and student number(s) of each person that worked on the assignment. Late assignments will not be accepted for any reason, and will receive a grade of zero. Make sure that you allow plenty of time to submit, as issues with technology will not be accepted as a reason for late submission.

Groups: If you preregistered to work on this assignment with someone else by signing up on OWL, you may work on this assignment with that person. Otherwise, all work must be done independently. Any compromise will result in a grade of zero for this Assignment, and will be reported to the Academic Dean.

Format: Assignments must be submitted in WORD. Do not submit as a pdf, or in any other manner. You have a maximum of 2 pages, single spaced. This does not include your cover page. You are NOT required to use both pages however please ensure that you provide thorough, detailed analysis. Margins must be exactly 1" (1 inch, 2.54 cm), and you must use 11-point Times New Roman font. Failure to follow the formatting requirement will result in a 10% penalty.

Analysis: For each issue that you identify in the case:

1. Identify the accounting issue.
2. Perform a detailed analysis of the accounting issue.

The CPA Handbook **must be** referenced in the analysis using the appropriate **Handbook section number(s) and paragraph number(s)**. Students must use facts from the case to support their analysis. The CPA Handbook can be accessed through your course OWL site.

3. Provide recommendations based on the analysis. Include any calculations that you think are relevant.
4. How do you think your analysis will impact the bank's decision about the loan to Uptown Hair Salon?

UPTOWN HAIR SALON

Uptown Hair Salon is a small, privately owned business in Westminister, Ontario. On November 1, 2019, Sally Que purchased all of the shares of Uptown from the previous owner, who was retiring. Sally is very ambitious. She is now seeking a \$50,000 bank loan so that she can expand the business. The bank requires audited financial statements in accordance with Accounting Standards for Private Enterprises (ASPE).

It is now November 15, 2020, and your accounting firm is performing the audit for the year ended October 31, 2020. This is the first time Uptown has had an external audit. The engagement partner has asked you to review the following information and to provide advice on any issues that should be addressed. Your recommendations must include specific references to relevant CPA Handbook sections and to specific case facts. If something has been recorded properly, please make a note that no change is needed, and explain why. You should inform the client about any impact on the financial statements, including dollar amounts. It is NOT necessary to prepare any journal entries.

Uptown has 6 hair styling stations. Two of the stations are personally used by Sally. The other four are rented out to other hair stylists. Anyone that rents a station is required to sign a 24-month contract and to pay an initial upfront fee of \$1,200. This fee helps cover the costs of insurance and promotion over the contract period. Because it is non-refundable, Sally records this fee as revenue when received. In addition, there is a monthly fee of \$450, which includes station rental and all utilities. This fee is also recorded as revenue when received. After the 24-month contract period, stylists can continue to rent their spot on a month-by-month basis. At this time, the rate increases to \$500 per month. On January 1, 2020, 4 stylists signed contracts with Uptown. Prior to January, there were no stylists renting stations at Uptown.

Uptown has a separate area in its facility that operates as a nail salon. Sally has found it difficult to hire reliable nail technicians, making this part of the business very difficult and time consuming to manage. It also requires an expensive investment in nail care products that are not being fully utilized. On August 1, 2020, Sally made a decision that she would replace this area with additional hair styling stations as soon as she could sell the nail care equipment. The equipment had an original cost of \$12,000. On October 31, 2020 it had a carrying value of \$8,000. Sally has conducted extensive advertising for this equipment, and she is confident that it will be sold by the end of December 2020 for \$6,000. While waiting for a sale, Sally carefully continued to record monthly straight-line depreciation on the equipment based on its expected useful life of 5 years and \$1,000 residual value. For fiscal 2020, the area had generated \$35,000 in revenue and incurred \$40,000 in expenses.

USING THE CPA HANDBOOK

On OWL, find the link to the CPA Handbook. Click on the link.

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At the top of the list you are taken to you will see links for the Canadian Accounting Standards.

Please pick the proper link based on the details in the Assignment question.

Welcome

Subscriptions

Accounting & Assurance

- ▶ CPA Canada Standards and Guidance Collection (CPACHB)
- ▶ International Financial Reporting Standards (2020)

You will be taken to a Search page. Enter the number of the accounting standard that you are looking for. Consider what standards are relevant to the facts of the case. Here I put in 1000 as a sample, and it took me to Section 1000. This is not a section that you need for this Assignment, but it is an example of how to do a search. After entering the number for the accounting standard, click on the little arrow to the right of the number. That will bring up the section you want.

Many sections of the standards have a lot of parts. You will need to look for relevant parts to reference when giving advice to the client.

The screenshot shows the CPA Canada Standards and Guidance Collection (CPACHB) website. The search bar at the top contains the number "1000", which is highlighted with a red box. Below the search bar, the left sidebar displays a tree view of the standards, with "1000 Financial statement concepts" selected. The main content area shows the title "GENERAL ACCOUNTING SECTION 1000 financial statement concepts" and a table of contents with two columns: "TABLE OF CONTENTS" and "Paragraph".

TABLE OF CONTENTS	Paragraph
Purpose and scope	.01-.06
Financial statements	.04-.06
Objective of financial statements	.07-.12
Objective	.12