

Radiation Shields, Inc.

Transaction Analysis and Financial Statements

On January 1, 2022, a group of investors incorporated Radiation Shields (RS), Inc. The company's mission is to manufacture a protective shield which can be sprayed onto wired and wireless electronic products found in the home and office, reducing the amount of radiation they emit. RS Inc. plans to market the product (under the brand "RadioShield") directly to corporations that may want a safer work environment for their employees.

During 2022, RS Inc. engaged in the following activities:

1. On January 1, 2022, as part of the incorporation of RS Inc., the company issued 13 million shares of common stock for \$2 per share (in cash). RS Inc. also issued 2 million shares to John Shields in exchange for the rights to the RadioShield brand.
2. On April 1, 2022, RS Inc. signed a one year lease for a manufacturing facility that will be used to produce RadioShields. The lease term begins April 1, 2022 and the \$12 million annual lease payment was paid in full that day. The facility has all the equipment and materials necessary to manufacture the RadioShields (the cost is included with the lease). RS will decide at the beginning of 2023 whether to extend the lease or build its own facility.
3. On July 1, 2022, RS Inc. borrowed \$6 million from its bank. The interest rate is 10%, due annually at June 30 each year (the first interest payment will be June 30, 2023). The full principal amount is due June 30, 2025.
4. In the summer of 2022, RS Inc. spent \$3 million (in cash) researching the optimal chemical additives to ensure the lacquer spray is fast drying and has a smooth and even finish. The developed technology is innovative and RS intends to patent it.
5. In Fall 2022, RS Inc. sold and shipped a total of \$23 million of RadioShields. As of the end of the year, a total of \$9.6 million of these sales had still not yet been collected. This receivable was due from a reputable wireless service provider who purchased a substantial number of spray cans as part of a promotional campaign. RS Inc. expects to collect this receivable in January 2023.
6. On December 15, 2022, the company signed a \$1 million sales contract with the organizer of the "International Fair for Electronic Consumer Products 2023" (IFECP), who intends to give away small spray cans to visitors of the trade show. Under the signed contract, RS Inc. will deliver the product on March 15, 2023, and IFECP will have 30 days after delivery to pay the full amount.

In the process of preparing RS Inc.'s financial reports for 2022, the following additional information was gathered:

7. The 12-month lease for the manufacturing facility is due to expire March 31, 2023. As of December 31, 2022, the company has not yet signed a lease extension.
8. At the end of 2022, RS Inc. has accrued six months of interest on their bank loan.

Required:

[For your convenience, use the attached template. Ignore Income Taxes in your analysis.]

- a. Analyze and record RS Inc.'s transactions for fiscal year 2022 (i.e., the period between 1/1/2022 and 12/31/2022). What is the effect of each transaction on the company's assets, liabilities, and shareholders' equity? [include any adjusting entries that must be made at the end of the year.]
- b. Prepare RS Inc.'s financial statements:
Balance Sheet at December 31, 2022.
Income Statement for the year ended December 31, 2022.
Statement of Cash Flows for the year ended December 31, 2022.
- c. What can you conclude about the company's performance in 2022?

[To prepare for class discussion, you should attempt to make as much progress as you can on these questions. Do not feel frustrated if you cannot do all of them. We will be clarifying all these issues during our session.]

Radiation Shields, Inc.
Transaction Analysis

	Assets					=	Liabilities + Owners' Equity			
Accounts										
1/1/22 Balance										
12/31/22 Balance										