

Financial Accounting I

2014/2015

GAi

Chapter 1, 2 and 3

Extra - Cases for autonomous work
(with solutions)



These cases are all adapted from Libby et al (2011), the recommended book for the Financial Accounting Classes

CASE 1 – COMPARING INCOME WITH CASH FLOW

One company was organized on January 1, 2013. At the end of the first year (12 months) of operations, the owner prepared a summary of its activities as shown in the first row of the following table:

Summary of Transactions	Computation of	
	Income	Cash
a. Services performed for customers, €66.000, of which €11.000 remains uncollectable at the end of the year		
b. Cash borrowed from the local bank, €45.000 (short-term loan)		
c. Small service truck purchased at the end of the year to be used in the business for the two years starting the next year: cost €9.500, cash		
d. Wages earned by employees, €21.000, of which one-half remain unpaid at the end of the year		
e. Services supplies purchased for use in the business, €3.800 cash, of which €900 were unused (still on hand) at the end of the year		
f. Other operating expenses, €39.000, of which €6.500 remained unpaid at the end of the year		
Based on these transactions, compute the following for the quarter:		
Income (or loss)	<u> ?</u>	
Cash inflow (or outflow)		<u> ?</u>

Solution – case 1:

<u>Transaction</u>	Req. 1		Req. 2–Explanation
	<u>Income</u>	<u>Cash</u>	
(a)	+€66.000	+€55.000	All services performed increase income; cash received during the period was, €66.000 – 11.000 = €55.000.
(b)	–0–	+45.000	Cash borrowed is not income.
(c)	–0–	–9.500	Purchase of the truck does not represent an expense until it is used (it is an asset); cash outflow was €9.500.
(d)	–21.000	–10.500	All of the wages incurred reduce income, €21.000; cash paid during the quarter was €21.000 x 1/2 = €10,500. The €10.500 owed will be paid on the next payroll date.
(e)	–2.900	–3.800	Not all of the supplies were used; expense is the amount used. €3.800 – 900 = €2.900. Cash paid during the quarter was €3.800.
(f)	–39.000	–32.500	All expenses incurred reduce income; cash expended was. €39.000 – 6.500 = €32.500.

Based only on the above:

Income (loss) €3.100

Cash inflow (outflow) € 43.700

Source: These cases are adapted from Libby et al (2011). These cases are only for use in classes and have a pedagogical nature.

CASE 2 – IDENTIFYING ACCOUNTS ON A BALANCE SHEET AND THEIR NORMAL DEBIT OR CREDIT BALANCES

One company explores, produces, refines, markets and supplies crude oil and other petroleum products. The following are accounts from a recent balance sheet:

	Balance sheet classification	Debit or credit balance
1. Loans Payables (short term)		
2. Materials and Supplies		
3. Contributed capital		
4. Patents		
5. Income taxes payable		
6. Long term debt		
7. Marketable securities (short-term)		
8. Fixed tangible assets		
9. Retained earnings		
10. Accounts receivables (short term)		
11. Financial investments (long term)		
12. Cash and cash equivalents		
13. Accounts payables		
14. Crude oil products and merchandise		

Required:

For each account, indicate how it normally be categorized on a classified balance sheet. Use CA for current assets, NCA for non-current assets, CL for current liabilities, NCL for non-current liabilities, SE for shareholders' equity. Also indicate whether the account normally has a debit or a credit balance.

Solution – case 2:

	Balance sheet classification	Debit or credit balance
1. Loans Payables (short term)	CL	Credit
2. Materials and Supplies	CA	Debit
3. Contributed capital	SE	Credit
4. Patents	NCA	Debit
5. Income taxes payable	CL	Credit
6. Long term debt	NCL	Credit
7. Marketable securities (short-term)	CA	Debit
8. Fixed tangible assets	NCA	Debit
9. Retained earnings	SE	Credit
10. Accounts receivables (short term)	CA	Debit
11. Financial investments (long term)	NCA	Debit
12. Cash and cash equivalents	CA	Debit
13. Accounts payables	CL	Credit
14. Crude oil products and merchandise	CA	Debit

Source: These cases are adapted from Libby et al (2011). These cases are only for use in classes and have a pedagogical nature.

CASE 3 – MATCHING ITEMS REPORTED TO CASH FLOW STATEMENT CATEGORIES

One company is in the mining industry. Some of the items included in its recent annual statement of cash flows are listed above. Indicate whether each item is disclosed in the Operating Activities (OA), Investing Activities (IA) or Financing Activities (FA) section of the statement of cash flows. Use a NA if the item does not appear on that statement.

1. Receipts from sale of fixed tangible assets
2. Interest received
3. Repayments of bank loans
4. Income taxes paid
5. Receipts from ordinary shares issued
6. Dividends paid
7. Payments in the course of operations
8. Receipts from customers
9. Payments for fixed tangible assets
10. Net income
11. Dividends received

Solution – case 3:

IA	1. Receipts from sale of fixed tangible assets
IA	2. Interest received
FA	3. Repayments of bank loans
OA	4. Income taxes paid
FA	5. Receipts from ordinary shares issued
FA	6. Dividends paid
OA	7. Payments in the course of operations
OA	8. Receipts from customers
IA	9. Payments for fixed tangible assets
NA	10. Net income
IA	11. Dividends received

Source: These cases are adapted from Libby et al (2011). These cases are only for use in classes and have a pedagogical nature.

CASE 4 – DETERMINING CASH FLOW STATEMENT EFFECTS OF TRANSACTIONS

One company is a Portuguese furniture manufacturer. For each of the following first-year transactions, indicate whether Net Cash Inflows (outflows) from operating activities (NCFO), investing activities (NCFI), or financing (NCFF) are affected and whether the effect is an inflow (+) or outflow (-), or NE if the transaction has no effect on cash. (Hint: determine the journal entry recorded for the transaction. The transaction affects net cash flows if and only if the account cash is affected)

1. Paid cash to purchase a new equipment
2. Collected payments on account from customers
3. Recorded and paid interest on debt to creditors
4. Declared and paid cash dividends to shareholders
5. Sold used equipment for cash
6. Repaid principal on revolving credit loan from a bank
7. Purchased raw materials on account
8. Made payment to suppliers on account
9. Prepaid rent for the following year

Solution – case 4:

1. – NCFI
2. + NCFO
3. – NCFF
4. – NCFF
5. + NCFI
6. – NCFF
7. NE
8. – NCFO
9. – NCFO

CASE 5 – DETERMINING THE FINANCIAL STATEMENT EFFECTS OF OPERATING ACTIVITIES INVOLVING INCOME

The following transactions are 2013 activities of the company named YYY, which operates several table tennis centers. For each of the following transaction complete the tabulation, indicating the amount and effect (+ for increases and – for decrease) of each transaction. Remember that $A=SE+L$, $R-E=NI$, an NI affects SE through Net Income. The first transaction is provided as an example.

	Balance Sheet			Income Statement		
	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses	Net Income
YYY collected €13.000 from customers for games played on 2013	+13.000		+13.000	+13.000		+13.000
YYY sold tables tennis equipment inventory for €7.000; received €3.000 in cash and the rest will be received next year (The cost of good sold related to this sale is €3.380)						
YYY received €2.500 from customers on account who purchased merchandise in the past						
YYY borrowed €2.600 from banks (short term loan)						
YYY paid €1.900 on the electricity bill for 2013 (expense previously recorded)						
YYY paid €4.700 to employees for work in 2013						
YYY purchased €1.800 in insurance for coverage 2013 year						
YYY paid €1.400 to plumbers for repairing a broken pipe in the building						
YYY received the December electricity bill for €2.600 to be paid in the following year						

Source: These cases are adapted from Libby et al (2011). These cases are only for use in classes and have a pedagogical nature.

Solution – case 5:

	Balance Sheet			Income Statement		
	Assets	Liabilities	Stockholders' Equity	Revenues	Expenses	Net Income
YYY collected €13.000 from customers for games played on 2013	+13.000		+13.000	+13.000		+13.000
YYY sold tables tennis equipment inventory for €7.000; received €3.000 in cash and the rest will be received next year (The cost of good sold related to this sale is €3.380)	+7.000 (=3000+4000) -3.380		+7.000 -3.380	+7.000		+7.000 -3.380
YYY received €2.500 from customers on account who purchased merchandise in the past	+2.500 -2.500					
YYY borrowed €2.600 from banks (short term loan)	+2.600	+2.600				
YYY paid €1.900 on the electricity bill for 2013 (expense previously recorded)	-1.900	-1.900				
YYY paid €4.700 to employees for work in 2013	-4.700		-4.700		+4.700	-4.700
YYY purchased €1.800 in insurance for coverage 2013 year	-1.800		-1.800		+1.800	-1.800
YYY paid €1.400 to plumbers for repairing a broken pipe in the building	-1.400		-1.400		+1.400	-1.400
YYY received the December electricity bill for €2.600 to be paid in the following year		+2.600	-2.600		+2.600	-2.600

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CASE 6 – INFERRING EFFECT OF EACH OF THE EIGHT TRANSACTIONS

Read the following transaction and prepare the effect of each one on the accounts presented on the table provided below (this table is not ordered, but includes accounts from balance sheet and income statement).

<i>Transaction</i>	<i>Brief Explanation</i>
<i>a</i>	Issued capital stock to shareholders for €63.300 cash.
<i>b</i>	Purchased equipment for €13.700 cash.
<i>c</i>	Purchased €24.800 of inventory, paying €6.200 cash and the balance on account.
<i>d</i>	Sold €12.400 of goods or services to customers, receiving €8,680 cash and the balance on account. The cost of the goods sold was €6.510.
<i>e</i>	Used €1.480 of utilities during the month, not yet paid.
<i>f</i>	Paid €1.240 in wages to employees.

Accounts	Euro effect of each of the six transactions						Ending balance
	a	b	c	d	e	f	
Cash							
Customers							
Inventory							
Fixed tangible assets							
Suppliers							
Contributed capital							
Sales							
Cost of sales							
Wages expense							
External supplies and services							

Solution – case 6:

Accounts	Euro effect of each of the six transactions						Ending balance
	a	b	c	d	e	f	
Cash	63.300	-13.700	-6.200	8.680		-1.240	?
Customers				3.720			?
Inventory			24.800	-6.510			?
Fixed tangible assets		13.700					?
Suppliers			18.600		1.480		?
Contributed capital	63.300						?
Sales				12.400			?
Cost of sales				6.510			?
Wages expense						1.240	?
External supplies and services					1.480		?

Source: These cases are adapted from Libby et al (2011). These cases are only for use in classes and have a pedagogical nature.