Financial Accounting I

2014/2015

GAi

Chapter 5

Solutions

Cases:

Case 5.01 Modelo Continente

Case 5.02 Grupo Leya

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Questions:

1. **Sales revenues**

    a. **Do you agree with these principles applied by Modelo Continente? Why?**

Despite allowing the return of the product within two weeks, Modelo Continente recognizes revenue at the time of the delivery to the customer.

The procedure is correct. Despite the Modelo Continente allow customers to return products purchased, the probability of this happening is very low. Thus, at the time of sale the entity has transferred to the buyer the significant risks and rewards of the properties of the goods.

The revenue from the sale recognized by Modelo Continente is different depending on the customer use or not the *points card Continent (*a card with discounts on sales*)*.

The procedure is correct. When the Modelo Continente sells goods to a customer that uses points card, should recognize the sale net. The amount received and corresponding to the accumulated points will be deferred and recognized as revenue when the customer use these points a new purchase.

The revenue from the sale recognized by Modelo Continente is the same regardless of customers buy in cash or on credit.

The procedure is correct. When the Modelo Continente sells goods on credit, recognize a revenue by the amount corresponding to a purchase for cash at prompt payment. The difference between the amount of revenue (sale) and the amount received will be subsequently recognized as finance revenue during the credit period.

b. Record in "journal entries" the effect of each of these transactions, indicating the date referred to in the register.

Nº	Date	Description	Debit	Credit	Amount
1	Sale	Sale on credit	Cash	Sales	80.000
			CGSCM	Merchandises	60.000
2	Receipt	Receipt of clients	Cash	Clients	65.000
	Delivery	Sale, prompt payment	Clients	Sales	65.000
			CGSCM	Merchandises	50.000
3	Sale	Sale on credit	Clients	Sales	18.000
			CGSCM	Merchandises	14.000
3	Receipt	Receipt of clients	Cash	-	20.000
			-	Clients	18.000
			-	Financial revenue	2.000
4	Return	Return of sales	Sales	Cash	5.000
			Mercadorias	CGSCM	4.000
5	Sale	Sales with card discount	Cash	-	16.000
			-	Sales	15.000
			-	Defals (def.revenue)	1.000
			CGSCM	Merchandises	12.000

c. Comment on the following statement: "An increase in sales is reflected, mandatorily, in an increase of net income".

The statement is incorrect. In general, an increase in sales results in an increase in net income. However, an increase in sales can, exceptionally, result in a decrease in the net income. This happens when the increase in sales is accompanied by a more than proportional increase in expenses to be recognized in the income statement.

2. **Accounts receivable from clients**

a. Prepare the journal entries with all the information provided about account receivable from customers.

Nº	Date	Description	Debit	Credit
1	Impairment for clients	Impairment losses	Clients	10.000
2	Impairment for clients	Impairment losses	Clients	3.000
3	Reversal of na impairment	Clients	Reversals for impairment losses	4.000

a. **Comment on the following statement: "The recognition of an impairment loss for account receivable from clients impacts on asset but not in net income, given the loss still cannot be regarded as definitive".**

The statement is incorrect. The recognition of an impairment loss for clients always affects the assets (Client account) and also the net income (because impairment losses are expenses, and expenses decrease net income), even if the company can recover the amount of the loss in the future (so, can be no definitive).

3. Cash

The difference between the balance of accounts Cash and Bank deposits and the value resulting from the actual count of money (160 thousand euros) may be related to: poor counting the money; with errors in giving change; with theft practiced by any of the employees; and / or, the existence of a payment that has not been registered by the accounting services.

Case 5.02 Grupo LeYa[1]

Questions:

1. Sale revenues and results

a. Journalize the effect of each transaction presented (when they occurred).

Nº	Date	Description	Debit	Credit
1	Sales, prompt payment	Cash	Sales	45.000
		CGSCM	Merchandises	30.000
2	Sale, prompt payment, with delivery	Cash	Sales	39.600
		CGSCM	Merchandises	32.000
3	Sale on credit	Clients	Sales	60.000
		CGSCM	Merchandises	47.500
4	Return of sales	Sales	Cash	3.000
		Merchandises	CGSCM	2.000
		Impaiment losses	Merchandises	2.000
5	Transport costs on sales	External supplies and services	Cash	500
6	Payment to suppliers	Suppliers	Cash	9.000
7	Rent of na warehouse	External supplies and services	Cash	7.500
8	Depreciations	Depreciations expenses	Fixed Tangible assets	6.000
9	Payroll (salaries)	Emplyoee expenses	Cash	7.000
10	Payment to authors	External supplies and services	Cash	10.000

[1] This case was prepared by Francisco Cambim and Isabel Lourenço. Adaptation to GAi: Ana Isabel Lopes

b. Determine the operating result obtained with the presented transactions.

Sales	141.600
CGSCM	(107.500)
External Supplies and Services	(18.000)
Employee expenses	(7.000)
Depreciations	(6.000)
Impairment losses	(2.000)
Operating result (=EBIT)	**1.100**

2. Accounts receivable from clients

A sale on credit never affects the value of customer debts.

False statement. Credit sales do not affect immediately the amount of cash but always affect the value of receivables from customers, thus, de customer debts.

The bankruptcy of a customer always affects the value of customer debts.

False statement. The bankruptcy of a customer generally affects the value of customer debts. However, if the company previously recognized an impairment loss for this debt, the bankruptcy itself will no longer affect the net balance of the customer account (because previously was already zero).

The receipt of a debt of a client always affects the value of accounts receivable from clients.

False statement. The receipt of a debt of a client generally affects the value of customer debts (decrease). However, if the company previously recognized an impairment loss of debt, the receipt will not affect the net balance of the customer account. A reversal of the impairment loss of customers will be recognized when the company receives the money.