ISCTE IUL
Instituto Universitário de Lisboa
Lisbon University Institute

FINANCIAL ACCOUNTING I

Test / Exam

6th January 2014

SOLUTION

GROUP I – 8,0 POINTS

MANDATORY FOR ALL STUDENTS

Question I.1

	Answer to question I.1		
Statements	**T**	**F**	**Comments/Justification**
"The FIFO		X	- FIFO is not a criterion for measuring entries; it is a cost system to identify the amount to be attributable to exit; it means that - It is used to calculate the amount of cost of goods sold
			- The criterions for measure entries are: cost of acquisition, cost of production, and so on , in the sense that we need to identify the amount to be initial recognized **Also accepted: --» There are no criterions to measure entries**
The income statements		X	- The main objective is to show the performance, related with revenues and expenses,..... **OR: ---»** To show how net income is raised - Economic perspective....
			- Financial position is showed in the balance sheet, not income statement financial perspective....
The cash flow from investment activities		X	- Investment activities: ability to get money from fixed tangible assets, intangible assets, propriety investments, other non-current assets,.. - *Receipts from* divestments higher than payment of investments... **Also accept:** ---» Divestments higher than investments
			- Acquisitions and sales of inventories: operating activities and not investing activities + operating receipts higher than payments

Question I.2

Answer to question I.2_A

A=	25.287 – 4.989 – 446 – 11.698 = **8.154** **OU:** (see note) = 10.357 - 2.203 = **8.154**
B=	77.397 – 59.968 – 13.727 – 12.010 = **(- 8.308)**
C=	A = SE + L ----» SE = A - L ---» SE = 256.354 -178.957 = **77.397**
D=	Total borrowings= 126.403 ---> 126.403 - 113.813 = **12.590**
E=	Total liabilities – current liabilities = 178.957 - 159.806 = **19.151**

Answer to question I.2_B

X=	446 - 446/2 + 70 – 20 ---» **X = 273**
Y=	Cost of goods sold = Inventory at the beginning + Acquisitions – Inventory at the end = 2.154 = 4.989 + 2.066 – Y ---» **Y = 4.901**

Question I.3

Answer to question I.3_A

Date	Description	Debit	Credit	Amount
2 jan	Acquision	Inventory	-	1.000.000
		FTA	-	1.000.000
		-	Cash deposits	2.000.000

Answer to question I.3_B

Date	Description	Debit	Credit	Amount
31dez.	Impairment	Impairment losses	Inventory	100.000
	Depreciation	Depreciation expenses	FTA	20.000

Answer to question o I.3_C

		Answer to question I.3_C:
Financial Statement	**Type of impact**	**Example:**
Balance Sheet	*Increases borrowings*	Eg: - new borrowings for new acquisitions of FTA;
Income Statement	*Reversals of impairment losses*	Eg: increase in the net realisable value of inventories
Statement of Cash Flows	*Receipt from operating activities*	Eg: sale, prompt payment, of inventories;

GROUP II – 12,0 Points - TEST

Question II.1

Answer to question II.1_A
The company uses the weigh average cost (WAC).
AWC = (60 x 300€ + 30 x 340€) / 90 = **313,33€**
Cost of goods sold in 12/03 = 75 x 313,33€ = **23.500€**
Obs: saying just the meaning of WAC is not a justification, you must also present calculations

Answer to II.1_B

Nº	Description	Debit	Credit	Amount	Cálculo
12/03	Sales p.p. 75 surfboards	Cash deposits	Sales	37.500	-
	Cost of goods sold	Cost of goods sold	Inventories	23.500	-
15/06	Acquisition of 50 surfboards	Inventories	Suppliers	17.500	-
20/07	Sales p.p. 20 surfboards	Cash deposits	Sales	9.000	CALC
	Cost of goods sold	C.M.V.	Inventories	6.831	CALC
	Observ: if it was a cash discount, the journal entry would be:	Cash deposits	-	9.000	
		Other expenses and losses	-	1.000	
		-	Sales	10.000	
30/10	Acquisition to a foreign supplier	Inventories	-	15.200	CALC
		State	-	3.000	
		-	Cash deposits	9.560	
		-	Suppliers	8.640	
15/11	Return of 5 surfboards	Vendas	Customers	2.250	CALC
	Cost of goods returned	Inventories	Cost of goods sold	1.708	CALC

Nº	Description	Debit	Credit	Amount	Cálculo
	Observ: if it was a return from customers that had a precious cash discount, the journal entry would be:		Customers	2500	
		Other expenses and losses	-	2.250	
		Sales		250	
1/12	Leasing of an warehouse	Cash deposits	-	3.000	**-**
		-	Other revenues	1.000	
		-	Deferrals	2.000	
31/12	Communications consumption	External Supplies and services	Other accounts payables	3.000	-
31/12	Payrol	Employees expenses	-	12.000	**CALC**
		-	Cash deposits	8.000	
		-	State	4.000	

Answer to question II.1_C

EBIT=	EBIT = 37.500 + 10.000 - 2.500 + 1.000 - 23.500 - 6.831 + 1.708 - 3.000 - 12.000 - 1.000 + 250 = **1.627**
Cash flow from operating activities=	Cash Flow OA = 37.500 + 9.000 - 9.560 - 2.250 - 8.000 = **26.690**

Question II.2

Answer to question II.2_A
Depreciation expense at the end of 2013:
Manufacturing ecquipment= (120.000 - 20.000)/10 years = **10.000**
Transportation vehicles=(9.000 – 1.500)/5 years = **1.500**
Computers=3.200 / 5 = **640**
Software for computers=(750/3 anos) = **250 (*)**
Office furniture= (40.000/10 anos) x (6/12) = **2.000** OR (40.000/10 anos)=**4.000**
Total depreciation Expense = 10.000 + 1.500 + 640 + 2.000 = 14.140 ou **14.390** **(*)** ou **16.140** ou **16.390** ou...
(*)Assumption: Computer software acquired independently. The amortization of the computer program does not have quotation.

Answer to question II.2_B
Manufacturing ecquipment= 120.000 -10.000 = **110.000**

Transportation vehicles=9.000 – 1.500 = **7.500**
Computers=3.200 – 640 = **2.560**
Software for computers=750 – (750/3) = **500**
Office furniture= 40.000 – 2.000 = **38.000** or **36.000**
Carrying value after depreciations and amortizations= **110.000+7.500+2.560+38.000+500 = 158.560 or 156.560** or...

Question II.3

Answer to question II.3

	31.12.2013	**31.12.2014**
Customers	**136.162,4** **or** 136.162,4 + 6.808,12* = **142.970,4**	136.162,4 – (50.000 – 6.808.12) = = **92.970,52** **or** 136.162,4 – (50.000 – 6.808,12) + + 4.648,5* = **97.619,02**
Cash and cash deposits	**60.000**	**50.000** ou 110.000
Sales	60.000 + 136.162,4 = **196.162,4**	**0**
Interest and Financial revenues	5% x 136.162,4 = **6.808,12**	5% x [(136.162,4 – (50.000 – 6.808.12)] = **4.648,5**

* This amount should be added to the accounts receivables from customers. However, you could also add to “other accounts receivables” , as an accrued revenue.

GROUP II – 12,0 POINTS - EXAME

Question II.1

Answer to question II.1_A
The company uses the weigh average cost (WAC).
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Cost of goods sold in 12/03 = 75 x 313,33€ = **23.500€**
Obs: saying just the meaning of WAC is not a justification, you must also present calculations

Answer to II.1_B

Nº	Description	Debit	Credit	Amount	Cálculo
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15/06	Acquisition of 50 surfboards	Inventories	Suppliers	17.500	-
20/07	Sales p.p. 20 surfboards	Cash deposits	Sales	9.000	CALC
	Cost of goods sold	C.M.V.	Inventories	6.831	CALC
	Observ: if it was a cash discount, the journal entry would be:	Cash deposits	-	9.000	
		Other expenses and losses	-	1.000	
		-	Sales	10.000	
30/10	Acquisition to a foreign supplier	Inventories	-	15.200	CALC
		State	-	3.000	
		-	Cash deposits	9.560	
		-	Suppliers	8.640	
15/11	Return of 5 surfboards	Vendas	Customers	2.250	CALC
	Cost of goods returned	Inventories	Cost of goods sold	1.708	CALC
	Loss in inventories	Other expenses and losses	Inventories	1.793	

Nº	Description	Debit	Credit	Amount	Cálculo
	Observ: if it was a return from customers that had a precious cash discount, the journal entry would be:		Customers	2500	
		Other expenses and losses	-	2.250	
		Sales		250	
1/12	Leasing of an warehouse	Cash deposits	-	3.000	**-**
		-	Other revenues	1.000	
		-	Deferrals	2.000	
31/12	Communications consumption	External Supplies and services	Other accounts payables	3.000	-
31/12	Payroll	Employees expenses	-	12.000	**CALC**
		-	Cash deposits	8.000	
		-	State	4.000	

Answer to question II.1_C

Operating result (EBIT) =	EBIT= 37.500 + 10.000 - 2.500 + 1.000 - 23.500 - 6.831 + 1.708 - 3.000 - 12.000 – 1.000 + 250 - 1.793= **- 166**
Cash flow from operating activities =	Cash flow OA = 37.500 + 9.000 - 9.560- 2.250 - 8.000 = **26.690**
Gross Profit (%) =	Gross profit (%) = (gross profit/ Sales) x 100 Gross profit=(37.500 + 10.000 -2.500) - (23.500 + 6.831 - 1.708) = 45.000 – 28.623 = **16.377** Gross profit (%) = (16.377 / 45.000) x 100 = **36,39%**

Question II.2

Answer to question II.2_A
Depreciation expense at the end of 2013:
Manufacturing ecquipment= (120.000 - 20.000)/10 years = **10.000**
Transportation vehicles=(9.000 – 1.500)/5 years = **1.500**
Computers=(2.100/5 anos) + (1.100/5 anos x 6/12) = 420 + 110 = **530** or just **420**
Software for computers=(750/3 anos) = **250 (*)**
Office furniture= (40.000/10 anos) x (6/12) = **2.000** OR (40.000/10 anos)=**4.000**
Total depreciation Expense = 10.000 + 1.500 + 530 + 2.000 = 14.030 or **14.280** or **18.670** or **18.920** or...
(*)Assumption: Computer software acquired independently. The amortization of the computer program does not have quotation.

Answer to question II.2_B
Manufacturing ecquipment= 120.000 -10.000 = **110.000**
Transportation vehicles=9.000 – 1.500 **= 7.500**
Computers=3.200 - 1.100 – 420 **= 1.680**
Software for computers=750 – (750/3) = **500**
Office furniture= 40.000 – 2.000 = **38.000** or **36.000**
Carrying value after depreciations and amortizations= **110.000 + 7.500 + 1.570 + 38.000 + 500 = 157.570** or..

Answer to question II.2_C	
Hyp.1: Sale of the computer --» <u>proportional year:</u> **Balance sheet**: Assets(cash deposit **+500**; FTA **–990**); SE (net income **–490**) **Income statement**: Losses (**–490**); net income (**–490**)	**Hyp. 2: Sale of the computer --» <u>All the year</u>** **Balance sheet**: Assets(cash deposit **+500**; FTA **–990**); SE (net income **–600**) **Income statement**: Losses (**–600**); net income (**–600**)
Acquisition of office furniture: **Balance sheet**: Assets (FTA **+40.000**); Liab. (O.A.P. **+40.000**). Without impact in income statement **End of the year**: impact in Balance sheet and income statements due to depreciations	

Question II.3

Answer to question II.3

	31.12.2013	31.12.2014
Customers	**136.162,4** **or** 136.162,4 + 6.808,12* = **142.970,4**	136.162,4 – (50.000 – 6.808.12) = = **92.970,52** **or** 136.162,4 – (50.000 – 6.808,12) + + 4.648,5* = **97.619,02**
Cash and cash deposits	**60.000**	**50.000** ou 110.000
Sales	60.000 + 136.162,4 = **196.162,4**	**0**
Interest and Financial revenues	5% x 136.162,4 = **6.808,12**	5% x [(136.162,4 – (50.000 – 6.808.12)] = **4.648,5**

* This amount should be added to the accounts receivables from customers. However, you could also add to "other accounts receivables" , as an accrued revenue.