ISCTE IUL Instituto Universitário de Lisboa	**FINANCIAL ACCOUNTING I**

Type of assessment: Test / Exam

Date: 5 January 2015

Time allowed: 2 hours

NAME (full) ____

Student number: __________ **Course:** ________________ **Class:** ________________

Exam number: ____________ **Grade:** ____

Select the type of assessment that you are going to do:

☐ **Test**

☐ **Exam**

Informations:

1. This statement is divided into the following groups:

   Group I: mandatory for all students

   Group II – Test: mandatory for students included in continuous evaluation
   Group III – Test: mandatory for student in continuous evaluation

   Group II – Exam: mandatory for student NOT included in continuous evaluation
   Group III – Exam: mandatory for student NOT included in continuous evaluation

2. At the end of the test, the student must return the statement, which cannot be, in any case, unstapled.

3. Whenever asked, justify your answers and / or present the auxiliary calculations, otherwise the answers will not be considered.

4. There are no doubts clarified during the test. If necessary, take a assumption and indicate it, justifying.

5. Graphical or programmable calculators or any electronic and / or entertainment equipment such as, mobile phone, smartphone, MP3, tablet or similar are not allowed.

GROUP I – 4,0 Points (25 minutes)

Mandatory for all students

Please indicate with a cross, if the following statements are true (T) or false (F):

Statements	T	F
The financial statements of an entity provide useful information for making economic decisions.	X	
The financial statements of an entity must be relevant, reliable, comparable and understandable.	X	
The financial statements provide information on past performance and what is expected to be the future performance of an entity.		X
The only users of financial statements of an entity are its customers and its suppliers.		X
Investors can use the information presented in the financial statements of an entity to decide whether they will buy more shares of that entity.	X	
When the assets of an entity are financed only by shareholders, the total assets will equal the total of the shareholders' equity of that entity.	X	
One cash outflow due to operating activities of an entity always implies a decrease in the total assets of that entity.		X
All the revenues and expenses of an entity are included in the income statement.		X
The total current assets of an entity is equal to the sum of current liabilities, non-current liabilities, and shareholders' equity, minus the total of non-current assets.	X	

GROUP II – 12 points (70 minutes)

Mandatory for students included in continuous evaluation

The company XPTO buys and sells one model of computers. In December 2013 the following economic events happened:

1. Sale, prompt payment, of 500 computers for 1.000€/each. On the date of sale, the company had in stock two lots of computers as follows:

   Lot # 1 (acquired in October/ 2013): 400 computers acquired for 500€/each.

   Lot # 2 (acquired in November/2013): 200 computers acquired for 620€/each.

2. Payment of the fire insurance for the year 2014 in the amount of 2.500€.

3. Obtaining a bank loan in 15/12/2013, in the amount of 400.000€. This bank loan will be reimbursed in four equal installments being the first one in 15/12/2014. Loan interests are in arrears (paid at the same time as each reimbursement) and calculated at the rate of 6%.

4. Acquisition, on credit, of 50 computers for 650€/each. The price in prompt payment is 620€/each. These computers were acquired to be sold in the ordinary course of the business and will be paid to the supplier in 2014.

5. In 1 December 2013 the company made a "term deposit" in a bank in the amount of 100.000€, for a period of one year. This deposit is subject to an annual interest rate of 3%.

6. Acquisition of a patent for 240.000€, in the beginning of December 2013. This patent will be paid in three annual installments of 80.000 each, being the first one after the first year. The company expects to use this patent until the end of 2018.

7. Annual payment of interests on a bank loan. This bank loan was obtained on December 1, 2012, to be repaid in December 2015. The bank loan amount is 60.000€ and the annual interests paid in 2013 amounted to 3.000€.

8. Tangible fixed assets of the company in early 2013 were accounted for 800.000€ and had a residual value of 50.000€. The company expects to use these assets until the end of 2022.

9. The company estimate to pay in 2014 about 30.000€ as income taxes on the net income of 2013.

Requests:

1. Journalize (in journal entries) the effect of each one of the transactions above in december 2013 assuming that the company uses the perpetual inventory systems and FIFO.

2. Calculate what would be the cost of goods sold in the transaction 1, if the company had used the criterion Weighted Average Cost?

3. Indicate which are the transactions that have an impact on cash flows from investing activities and which are those with an impact on cash flows from financing activities.

Request 1

N.	Description	Debit	Credit	Amount
1a	Sale of computers	Cash/cash deposits	Sales	500.000
1b	Cost of sales	CGSCM	Merchandises	262.000
2	Fire insurance	Deferals	Cash/cash deposits	2.500
3a	Obtaining bank loan	Cash deposits	Bank Loans	400.000
3b	Expenses on bank loan (interests)	Financial expenses	Other accounts payable	1.000
4	Acquisition of computers	Merchandises	Suppliers	31.000
5a	Term deposit	Other deposits	Cash	100.000
5b	Interests on term deposit	Other accounts receivable	Financial revenues	250
6a	Acquisition of a patent	Intangible assets	Other accounts payable	240.000
6b	Amortization of a patent	Amort. expense	Intangible assets	4.000
7	Payment of interests	Financial expenses	-	2.750
		Other accounts payable	.	250
		-	Cash deposit	3.000
7b	Accrued interests	Financial expenses	Other accounts payable	250
8	Depreciation of FTA	Depreciation expense	Fixed Tangible assets	75.000
9	Taxes on income	Income tax expense	State	30.000

Request 2
270.000 = 500.000 x WAC
WAC = (400 x 500 + 200 x 620) / 600

Request 3
cash flows from investing activities: 5
cash flows from financing activities: 3 and 7

GROUP III – 4,0 Points (25 minutes)

Mandatory for students included in continuous evaluation

GAMA is a company that sells fashion clothes in two stores: one in Lisbon and another in Porto city. The main assets of this company are the trademark "So Chic" and the factory in Leiria city. The fashion clothes are produced in this factory using raw materials that are imported from Latin America.

The company GAMA is not the owner of the store in Porto city. This store is rented and the annual rent id 450.000€.

The balance sheet of this company at the end of 2013 is as follows (amounts in €):

BALANCE SHEET	2013
ASSETS	
Non-current assets	
Intangible assets	800.000
Fixed tangible assets	8.400.000
	9.200.000
Current assets	
Inventories	620.000
Clients	50.000
Cash and Bank deposits	130.000
	800.000
Total assets	***10.000.000***
SHAREHOLDERS' EQUITY AND LIABILITIES	
Shareholders' Equity	
Capital	3.000.000
Retained earnings	2.400.000
Net income	600.000
Total shareholders' equity	***6.000.000***
Liabilities	
Non-current liabilities	
Bank Loans	2.000.000
Current liabilities	
Bank Loans	200.000
Suppliers	1.800.000
Other current liabilities	0
Total liabilities	***4.000.000***
***Total* Shareholders' Equity and Liabilities**	***10.000.000***

Assume that, at the end of 2013, the company GAMA decided to buy the store in Porto city for 6 million euros. To do this, the company obtained a new bank loan (in the same amount) to be repaid in five annual installments, and paying an annual interest of 5%. The company expects to use this store for a period of 10 years, estimating a residual value of 2 million euros.

Assume, also, that the company did not record the effect of this investment (and related financing) in its financial statements.

Requests:

1. What is the impact of this investment (and related financing) in the Balance sheet of this company at the end of 2013?

2. What will be the impact of this investment (and related financing) in the income statement of 2014, compared to the income statement of 2013?

3. What will be the impact of this investment (and related financing) in the statement of cash flows of 2014, compared to the statement of cash flows of 2013?

Request 1
FTA: + 6.000.000
Bank loans (current): 1.200.000
Bank loans (non-current: 4.800.000

Request 2
Income statement:
Depreciations: + 400.000 = (6.000.000 – 2.000.000) / 10
Financial expenses: + 300.000 = 6.000.000 x 0,05
External suppliers and services: - 450.000

Request 3
Statement of cash flows:
Financing activities: - 300.000 – 1.200.000
Operating activities: + 450.000

GROUP II – 12 Points (70 minutes)

Mandatory for student NOT included in continuous evaluation

The company XPTO buys and sells one model of computers. In December 2013 the following economic events happened:

1. Sale, prompt payment, of 500 computers for 1.000€/each. On the date of sale, the company had in stock two lots of computers as follows:

Lot # 1 (acquired in October/ 2013): 400 computers acquired for 500€/each.

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4. Acquisition, on credit, of 50 computers for 650€/each. The price in prompt payment is 620€/each. These computers were acquired to be sold in the ordinary course of the business and will be paid to the supplier in 2014.

5. In 1 December 2013 the company made a “term deposit” in a bank in the amount of 100.000€, for a period of one year. This deposit is subject to an annual interest rate of 3%.

6. Acquisition of a patent for 240.000€, in the beginning of December 2013. This patent will be paid in three annual installments of 80.000 each, being the first one after the first year. The company expects to use this patent until the end of 2018.

7. Annual payment of interests on a bank loan. This bank loan was obtained on December 1, 2012, to be repaid in December 2015. The bank loan amount is 60.000€ and the annual interests paid in 2013 amounted to 3.000€.

8. Tangible fixed assets of the company in early 2013 were accounted for 800.000€ and had a residual value of 50.000€. The company expects to use these assets until the end of 2022.

9. The company estimate to pay in 2014 about 30.000€ as income taxes on the net income of 2013.

Request:

1. Journalize (in journal entries) the effect of each one of the transactions above in december 2013 assuming that the company uses the perpetual inventory systems and the Weighed Average Cost.

2. Assume that after transaction number 4, the company sold 1.100 computers for 1.100€/each. Compute the cost of goods sold.

3. Identify the impact of each one of the 9 transactions above in its cash flows from operating, financing and investing activities.

4. Considering only the information referred to in the 9 transactions previously presented, which values (amounts) must be presented under current liabilities and non-current liabilities of the company at the end of 2013?

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7	Payment of interests	Financial expenses	-	2.750
		Other accounts payable	.	250
		-	Cash deposit	3.000
7b	Accrued interests	Financial expenses	Other accounts payable	250

8	Depreciation of FTA	Depreciation expense	Fixed Tangible assets	75.000
9	Taxes on income	Income tax expense	State	30.000

Request 2
85.000 = 150 x 566,(6) = 150 x (100 X 540 + 50 X 620) / 150

Request 3
1. Cash flows from operating activities: (+ 500.000)
2. Cash flows from operating activities (- 2.500)
3. Cash flows from financing activities (+ 400.000)
4. No impact on cash flows
5. Cash flows from investing activities (- 100.000)
6. No impact on cash flows
7. Cash flows from financing activities (- 3.000)
8. No impact on cash flows
9. No impact on cash flows

Request 4
Non-current liabilities: 520.000 = 300.000 + 160.000 + 60.000
Current liabilities: 242.500 = 100.000 + 32.500 + 80.000 + 30.000

GROUP III – 4,0 Points (25 minutes)

Mandatory for student NOT included in continuous evaluation

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	800.000
Total assets	***10.000.000***
SHAREHOLDERS' EQUITY AND LIABILITIES	
Shareholders' Equity	
Capital	3.000.000
Retained earnings	2.400.000
Net income	600.000
Total shareholders' equity	***6.000.000***
Liabilities	
Non-current liabilities	
Bank Loans	2.000.000
Current liabilities	
Bank Loans	200.000
Suppliers	1.800.000
Other current liabilities	0
Total liabilities	***4.000.000***
***Total* Shareholders' Equity and Liabilities**	***10.000.000***

Assume that, at the end of 2013, the company GAMA decided to buy the store in Porto city for 6 million euros. To do this, the company obtained a new bank loan (in the same amount) to be repaid in five annual installments, and paying an annual interest of 5%. The company expects to use this store for a period of 10 years, estimating a residual value of 2 million euros.

Assume, also, that the company did not record the effect of this investment (and related financing) in its financial statements.

Requests:

1. What is the impact of this investment (and related financing) in the Balance sheet of this company at the end of 2013?
2. What will be the impact of this investment (and related financing) in the income statement of 2014, compared to the income statement of 2013?
3. What will be the impact of this investment (and related financing) in the statement of cash flows of 2014, compared to the statement of cash flows of 2013?
4. Is this decision advantageous for the company's performance in 2014?
5.
6.

Request 1
FTA: + 6.000.000
Bank loans (current): 1.200.000
Bank loans (non-current: 4.800.000

7.
8.

Request 2
Income statement:
Depreciations: + 400.000 = (6.000.000 – 2.000.000) / 10
Financial expenses: + 300.000 = 6.000.000 x 0,05
External suppliers and services: - 450.000

9.
10.

Request 3
Statement of cash flows:
Financing activities: - 300.000 – 1.200.000
Operating activities: + 450.000

Request 4
The decision seems to be disadvantageous.
Net income decreases.

List of Accounts*

Assets	Liabilities	Shareholders equity	Revenues	Expenses
• Tangible fixed assets • Intangible assets • Financial investments • Investment properties • Goods (Inventories) • Raw materials (Inventories) • Finished products (or goods) (Inventories) • Work in progress (Inventories) • Customers, or Clients, or Trade Accounts • Other Accounts receivables* • State (Accounts receivable from…) • **Deferrals** • Biological assets • Cash • Cash deposits or Bank deposits • Other deposits • Other financial instruments	• Suppliers (or accounts payables to suppliers or Trade creditors) • Employees (Accounts payables to…) • State (Accounts payables to…) • Bank loans (short term) • Bank loans (long term) • Other accounts payables* • **Deferrals** • Provisions	• Capital (contributed), or share capital • Reserves (legal and others) • Retained earnings • Other changes in the SE	• Sales • Services rendered • Production variation • Works on progress (for the entity) • Operating subsidies • Other revenues • Reversals of impairment • Interest revenue • Financial Income	• Cost of Sales (cost of goods sold and consumed materials) • External Supplies and Services (third part supplies and services) • Employees expenses • Depreciation expense • Impairment losses • Provision expense • Financial Expenses • Other expenses
		• Net income		

* Adapted from SNC

*Other accounts receivables: includes: - Accrued revenues

*Other accounts payables: includes: - Investment Suppliers
- Accrued expenses