

Financial Accounting and Reporting

Final Exam

BSc in International Business and Politics

Copenhagen Business School

Pages: 9

Student number:

11 June 2021

Question 1:

1.1:

TRUE.

1.2:

TRUE.

- Treasury stock is contra to equity
- Discount on bonds payable is contra to bonds payable
- Allowance for doubtful accounts is contra to accounts receivable

1.3:

TRUE.

- When shares are returned then less people are to share them.

1.4:

FALSE.

- Can also be an asset when it is credit balance.

1.5:

FALSE.

- When depreciated it is removed from total assets.

Question 2:

2.1

Issue price = Face value*Present Value of a 1\$ (for the principal amount) + ((Face value***Coupon rate**)/Frequency in year)* Present Value of 1\$ annuity (for the interest)

6%:

$$\text{Issue price} = 2,000,000 * 0,61391325 + ((2,000,000 * 0.06) / 2) * 7,72173493 = 1,227,826,507 + 463,304,0958 = 1,691,130,603$$

10%:

$$\text{Issue price} = 2,000,000 * 0,61391325 + ((2,000,000 * 0.1) / 2) * 7,72173493 = 1,227,826,507 + 772,173,4929 = 2,000,000$$

16%:

$$\text{Issue price} = 2,000,000 * 0,61391325 + ((2,000,000 * 0.16) / 2) * 7,72173493 = 1,227,826,507 + 1,235,477,589 = 2,463,304,096$$

As the coupon rate enters the equation positively, a higher coupon rate will result in a higher issue price.

2.2

10 years:

$$\text{Issue price} = 2,000,000 * 0,50256588 + ((2,000,000 * 0.1) / 2) * 14,2124033 = 1,005,131,769$$

$$+ 2,700,356,627 = 3,705,488,396$$

15 years:

$$\text{Issue price} = 2,000,000 * 0,35627841 + ((2,000,000 * 0.1) / 2) * 18,3920454 = 712,556,8212$$

$$+ 3,494,488,628 = 4,207,045,449$$

20 years:

$$\text{Issue price} = 2,000,000 * 0,25257247 + ((2,000,000 * 0.1) / 2) * 21,3550723 = 505,144,9364 + 4,057,463,744$$

$$= 4,562,608,68$$

Higher years of maturity = higher issue price

Question 3:

3.1

Date	Accounts Titles and Explanation	Debit	Credit
		\$	\$
Jan. 01/18	Equipment	125,000	
	Cash		125,000
Dec. 31/18	Depreciation	27,000	
	Accumaltd Depreciation		27,000
Dec. 31/19	Depreciation	27,000	
	Accumaltd Depreciation		27,000
Dec. 31/20	Depreciation	27,000	
	Accumaltd Depreciation		27,000
Jun. 01/21	Depreciation	11,250	
	Accumaltd Depreciation		11,250
	Cash	18,000	
	Accumaltd Depreciation	92,250	
	Loss on sale	14,750	
	Equipment		125,000

3.2

Date	Accounts Titles and Explanation	Debit	Credit
		\$	\$
Jan. 01/18	Equipment	125,000	
	Cash		125,000
Dec. 31/18	Depreciation	62,500	
	Accumaltd Depreciation		62,500
Dec. 31/19	Depreciation	31,250	
	Accumaltd Depreciation		31,250
Dec. 31/20	Depreciation	15,625	

		Accumalted Depreciation		15,625
Jun.	01/21	Depreciation	3,255	
		Accumalted Depreciation		3,255
		Cash	18,000	
		Accumalted Depreciation	112,630	
		Gain on sale		5,630
		Equipment		125,000

3.3

2018:

- $10,000 \times 12 = 120,000$
- $3,000 \times 12 = 36,000$
- $7,000 \times 12 = 84,000$
- $120,000 - 36,000 - 84,000 - 62,500 = -62,000$
- Taxable income = $-62,000 \times 0.3 = -18,000$

2019:

- Taxable income = $-31,250 \times 0.3 = -9,375$

2020:

- Taxable income = $-15,625 \times 0.3 = -4,687.5$

2021:

- $120,000 - 36,000 - 84,000 + 18,000 - 3,255 = 14,745$
- Taxable income = $14,745 \times 0.3 = 4,423.5$

3.4

2018:

- Taxable income = $-27,000 \times 0.3 = -8,100$

2019:

- Taxable income = $-27,000 \times 0.3 = -8,100$

2020:

- Taxable income = $-27,000 \times 0.3 = -8,100$

2021:

- $120,000 - 36,000 - 84,000 + 18,000 - 11,250 = 6,750$
- Taxable income = $6,750 \times 0.3 = 2,025$

Question 4:

4.1:

Date	Accounts Titles and Explanation	Debit	Credit
		\$	\$

Jan.	1	Cash	1,000,000	
		Common stock		1,000,000
		<i>(Contribution in cash for 10,000 shares)</i>		
	2	Rent expense	100,000	
		Prepaid rent	100,000	
		Cash		200,000
		<i>(Rents warehouse with down payment in cash)</i>		
	3	Inventory	30,000	
		Accounts Payable		30,000
		<i>(Company buy 3,000 units for 30,000 on credit)</i>		
	10	Cash	3,000	
		Revenues		3,000
		Cost of Goods Sold	2,000*	
		Inventory		2,000
		<i>(Customer buy 200 units for 3,000 cash)</i>		
	21	Accounts Receivable	4,400	
		Revenues		4,400
		Cost of Goods Sold	3,000*	
		Inventory		3,000
		<i>(Customer buy 300 units for 4,400 on credit)</i>		
Feb.	19	Cash	4,400	
		Accounts Receivable		4,400
		<i>(Customer pays 4,400 for credit sale)</i>		
	22	Accounts receivable	7,300	
		Revenues		7,300
		Cost of Goods Sold	5,000*	
		Inventory		5,000
		<i>(Customer buy 500 units for 7,300 on credit)</i>		
Mar.	3	Retained Earnings	30,000*	
		Dividens Payable		30,000
		<i>(Declares cash dividend of 3 % per share)</i>		
	15	Retained Earnings	10,000	
		Dividens Payable		10,000
		<i>(Charlie declare cash dividend of 2 % per share)</i>		
	5	Dividens Payable	10,000	
		Cash		10,000
		<i>(Charlie pays the cash dividend)</i>		
	15	Inventory	10,000	
		Accounts Payable		10,000
		<i>(Company buy 1.000 units for 10,000 on credit)</i>		
	24	Accounts Receivable	5,700	
		Revenues		5,700
		Cost of Goods Sold	4,000*	
		Inventory		4,000

	<i>(Customer buy 400 units for 5,700 on credit)</i>		
30	Cash	200	
	Deffered Revenues		200
	<i>(Customer pays 200 in advance)</i>		
31	Bad debt expense	2,600*	
	Allowance for doubtful accounts		2,600

1*: 200*10

2*: 300*10

3*: 500*10

4*: 10.000 (shares)*3

5*: 400*10

6*: 0.2*13.000

4.2:

Accounts Titles	Debits (\$)	Credits (\$)
Cash	797,600	
Accounts Receivable	13,000	
Allowance for Doubtful Accounts		2,600
Inventory	26,000	
Prepaid Rent	100,000	
Accounts Payable		40,000
Deffered Revenues		200
Common Stock		100,000,000
Retained Earnings	10,000	
Bad Debt Expense	2,600	
Cost of Goods Sold	14,000	
Rent Expense	100,000	
Revenues		<u>20,400</u>
Total	1,063,200	1,063,200

4.3

Family Farms Company	
Income statement for quarter ended at 03/31/2021	
\$	
Revenues	20,400
Bad Debt Expense	(2,600)
Cost of Goods Sold	(14,000)
Rent Expense	<u>(100,000)</u>
Operating Profit	(96,200)

Tax Expense	<u>0</u>
Income After Tax Expense	(96,200)

4.4

Family Farms Company
Balance Sheet as of 03/31/2021

<i>Assets</i>	\$	\$
Current Assets:		
Cash		797,600
Accounts Receivable, gross	13,000	
Less: Allowance for Doubtful Accounts	<u>2,600</u>	
Accounts Receivable, net		10,400
Inventory		<u>26,000</u>
Total Current Assets:		834,000
Non-current Assets:		
Prepaid Rent	100,000	-
Total Non-current Assets:		100,000
Total Assets		<u>934,000</u>
Liabilities		
Current Liabilities:		
Accounts Payable		40,000
Deffered Revenues		<u>200</u>
Total Current Liabilities		40,200
Equity		
Common Stock		1,000,000
Retained Earnings		<u>(106,200)*</u>
Total Equity		<u>893,800</u>
Total Liabilities and Equity		<u>934,000</u>

*: -96.200 - 10.000

4.5

Family Farms Company
Balance Sheet at March 31

Cash Flows from Operating Activities:		\$
Receipts:		
	Cash collected from customers	<u>7,600</u>
Payments:		
	Rent	(200,000)
	Net cash flows from operating activities:	(192,400)
Cash Flows from Financing Activities:		
	Proceeds from issuance of common stock	1,000,000
	Cash dividends paid	(10,000)
	Net cash flows from financing activities:	990,000
	Net Increase in Cash During Q1 of 2021	797,600

4.6

If they use FIFO it would not matter as there is no difference in the perpetual and periodic system under FIFO. If they however used LIFO, the financial statement would show a lower cost of goods sold but with a more recent price. Inventory would have a higher balance but with an older price.

Question 5:

When buying in own company, then cash should be credited and treasury stock should be credited.

When buying in other company, then cash should be credited and an asset-account should be debited.

If they buy shares in own equity then there would be no effect on the financial statement, but the value for there shareholders will increase. If they buy shares in a different company's equity then it will be a new source of revenue, and therefore effect the financial statement. It is relevant to know if the company is publicly listed. If it is not, then it does not make sense to buy shares from it's own equity.

Question 6:

6.1

It is a huge problem for comparability, when the fiscal years end at different points. PepsiCo also end their fiscal year on different dates. This results in great forth quarter each year, and therefore 'cheats' investors every year.

6.2

Total liabilities / total stockholders' equity

$$2020: 37,173.9 / -7.805.1 = -4,7$$

$$2019: 25,450.6 / -6,232.2 = -4,0$$

Operating lease liabilities has increased from 0 to 7,661.7

6.3

Net income / Stockholders' equity

$$2020: 928.3 / -7.805.1 = - 0.1$$

$$2019: 3,599.2 / -6,232.2 = -0.57$$

6.4

Net income / total assets

$$2020: 928.3 / 29,364.5 = 0.031$$

$$2019: 3,599.2 / 19,219.6 = 0.187$$

6.5

Net income / (total assets 2020 + 2019)/2

$$\text{Average total assets} = (29,364.5 + 19,219.6) / 2 = 24,292.05$$

$$928.3 / 24,292.05 = 0.038$$

Net income / total asset beginning of fiscal year 2020

$$928.3 / 19,219.6 = 0.048$$