Financial Reporting and Accounting

Midterm

BSc in International Business and Politics

Copenhagen Business School

Pages: (7 including frontpage & bibliography)

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Question 1

A) FALSE
B) FALSE
C) TRUE
D) FALSE
E) The accumulated depreciation account is a contra asset account to the property. Plants and equipment account. Furthermore, the Allowance for doubtful accounts is a contra asset account to the Accounts receivable account
F) Yes, it does it is part of the net income as an expense and therefore must be recognized on the cash flow statement
G) The direct write off method violates the matching principle, which can lead to both understated and overstated statements.
H) The first method is the "percentage of sales method" which uses a percentage of the total sales for a period. The second method is the "aging method" where different percentages are applied to different lengths of outstanding debt to reflect the chances of collecting the debt.

Question 2

A)

	Ending inventory	COGS	Gross profit
Weighted average	$28{,}145 \cdot 650 = 18294$	$28{,}145 \cdot 1210 = 34055$	$(45 \cdot 1210) - 34055 = 20395$
FIFO	$650 \cdot 25 = 16250$	$= 36100$	$(45 \cdot 1210) - 36100 = 18350$
LIFO	$= 17000$	$(700 \cdot 25) + (510 \cdot 35) = 35350$	$(45 \cdot 1210) - 35350 = 19100$

B)

The perpetual inventory system would be automatic and computerized, and would therefore update automatically

Question 3

$$Annual\ depreciation\ expense = \frac{800000 - 200000}{4} = 150000$$

GENERAL Journal

Alpha Bravo Company

Date	Account	Debit	Credit
31/12/2017	Depreciation expense Accumulated depreciation	150000	150000

Year	Annual depreciation	Accumulated depreciation	Book Value (End of Fiscal Year)
2017	150.000	150.000	650.000
2018	150.000	300.000	500.000
2019	150.000	450.000	350.000
2020	150.000	600.000	200.000

The pre-tax income of 2017 would have been higher if the useful lifetime was 5 years instead of 4, because the depreciation expense then would have been less in 2017, resulting in a higher pre-tax income.

Question 4

GENERAL Journal

Beta Inc.

Date	Account	Debit	Credit
March	Cash Capital stock *To record issue of 20.000 stocks*	600.000	600.000
March	Property, plant and equipment Cash Notes payable *To record purchase of building*	200.000	80.000 120.000
March	Property, plant and equipment Accounts payable *To record purchase of equipment from Charlene iNC*	300.000	300.000
March	Note payable Cash *To record part payment of note payable*	30.000	30.000
March	Cash Unearned revenue	10.000	10.000

Trial balance of Beta Inc, as of March		
Accounts and balances	**Debit**	**Credit**
Cash	500.000	
Capital stock		600.000
Property, plant and equipment	500.000	
Notes payable		90.000
Accounts payable		300.000
Unearned revenue		10.000
Total:	1.000.000	1.000.000

Question 5

The non- current asset section is wrong. Because of the principle of liquidity, the most likely assets to be converted into cash has to be written first. Therefore current assets should appear before non Current assets

Question 6

Current Liabilities	£
Accounts payable:	550
Taxes Payable	350
Accrued rent:	700
Notes & loans payable:	750
Total current liabilities	2350£
Non-current liabilities:	
Long term Notes payable	1300
Deferred revenue	
Total Non-current liabilities	1300£
Equity and retained earnings	
Stockholders' equity	3500
Retained earnings	1250
Total equity & retained earnings	4750£
Total liabilities & equity:	**8400£**

Current assets	£
Cash:	800
Accounts receivables:	650
Prepaid expenses	150
Inventory value:	450
Short term investment	500
Total current assets	2550£

Question 7

A) Current ratio

$$\frac{Current\ assets}{Current\ liabilities}$$

$$\frac{536{,}671}{115{,}845} = 4{,}63$$

B) Profit margin

$$\frac{net\ income}{revenue}$$

$$\frac{-210{,}935}{3{,}781} \approx -55{,}788$$

C) Gross Profit ratio

$$\frac{Gross\ profit}{net\ sales} \cdot 100$$

$$\frac{1{,}777}{3{,}781} \cdot 100 = 47\%$$

D) Inventory turnover ratio

$$\frac{COGS}{Average\ value\ of\ invenotry}$$

$$\frac{2{,}004}{\frac{26{,}817 + 23{,}288}{2}} = 0{,}08$$

E) Accounts receivable turnover

$$\frac{net\ credit\ sales}{accounts\ receivable}$$

As the company does not present a number for net credit sales, the Accounts receivable turnover cannot be calculated

F) Asset turnover

$$\frac{revenue}{average\ total\ assets}$$

$$3{,}781$$

$$\frac{605{,}546 + 156{,}039}{2} = 0{,}01$$

The company is operating at a loss which can make financial performance hard to analyze. Furthermore, its financial statements does not carry much information as many sub accounts are not presented, making it had to analize potential problems and poor performaces