

PRACTICES TOPIC 3: FINANCIAL STATEMENTS**SOLUTION: Exercise 1**

a) REVENUES/INCOME:

Sales	1.930,0 m.u.
Revenues	1.930,0 m.u.

COLLECTION:

Sales – Amount (not collected) (1,930 – 315.0)	1.615,0 m.u.
Collections	1.615,0 m.u.

PAYMENTS:

Material purchased	575 (700 – 125)
Personnel	375 (450-75)
Energy	0 (nothing paid)
Payments	1.206,0

EXPENSES/COSTS: Expenses

arises when we incur the obligation to pay (for example, personnel, raw materials, rent, electricity, etc.) for the services received.

Raw materials costs included in sold products	700,0
Personnel Expenses	450,0
Energy expenses	230,0
Depreciation ¹ (Total)	30,0
- Factory building	$1.000/25*4 = 10,0$
- Offices building	$1.500/50*4 = 7,5$
- Machinery	$300/10*4 = 7,5$
- Transport Equipment	$100/5*4 = 5,0$
Total Expenses	1.410,00

(Note: It is assumed that the entire raw materials purchases of 700,0 m.u. are included as cost of goods sold.)

INVESTMENTS:

Given that the Practice establishes that the mentioned goods were acquired on the 31st of December of previous year, there isn't any data that indicates that any investment has been done for the current year period being considered in the problem. Thus, investments are considered to be '0'.

PRACTICES TOPIC 3: FINANCIAL STATEMENTS

b) There will be no difference in Revenues, Collection, and Payments.

Since only half of the purchased material have been consumed in manufacturing, it will affect only expenses and consequently the profit for the period.

EXPENSES/COSTS:

Raw materials costs included in sold products	350,0
Personnel Expenses	450,0
Energy Expenses	230,0
Depreciation	30,0
- Factory building	$1.000/25*4 = 10,0$
- Offices building	$1.500/50*4 = 7,5$
- Machinery	$300/10*4 = 7,5$
- Transport equipment	$100/5*4 = 5,0$
Totale Expenses	1.124.00

(Note: The unused raw material will appear as inventory.)

PRACTICES TOPIC 3: FINANCIAL STATEMENTS

SOLUTION: Exercise 2

From the accounting point of view the Balance sheet will be,

ESTIMATED BALANCE AT OPERATIONS START

ASSETS	(use)	EQUITIES	(resources)
Bank & Cash	4.500	Capital	60.000
Patent	30.000		
Machinery	15.000		
Raw materials	10.500		
TOTAL	60.000		60.000

The Bank account has had the following movements,

Paid in capital (shareholders): +30.000

Machinery payment: -15.000

Raw Materials payment: -10.500

Balance: +4.500

PRACTICES TOPIC 3: FINANCIAL STATEMENTS

SOLUTION: Exercise 3:

SOLUTION: Exercise 4:

Income Statement for Hawkins Partners, taking into account that taxes on profits are 30%.

<i>INCOME STATEMENT</i>	
Sales	130.800
Purchase of goods (sold 100%)	-84.000
Variation of inventory	-100
Income from rentals	10.500
Wages and salaries	-12.700
Rent payment and royalties (derechos, cánones)	-1.000
Supplies	-1.200
INCOME FROM OPERATIONS (EBIT)	42.300
Interests received from credits	15.200
Interests paid (company's debt)	-5.500
NET INCOME BEFORE TAXES	52.000
Income tax (30%)	-15.600
NET INCOME	36.400

PRACTICES TOPIC 3: FINANCIAL STATEMENTS**SOLUTION: Exercise 5****SOLUTION: Exercise 6**

1. (Note: All figures are in monetary units (m.u.))

Before going to the Balance Sheet, we need to find the tax that has been paid by the company X for the period (because they are needed to obtain the CASH for the Balance Sheet), and also the Retained Earnings (will be displayed in the Owner's Equity part of the Balance Sheet). Hence, we **first** need to prepare the **income statement**.

Income Statement:

Total Sales	50,0
Cost of Goods Sold	(10,0) 50% of raw materials
Labour expenses	(10,0)
Depreciation	(2,0) Land does not depreciate
Operating Income before tax and interest (EBIT)	28,0
Interest Payment	0,0
Tax @ 30%	(8,4) ⁽¹⁾
Net Profit	19,6 ⁽²⁾
Retained Earnings (Assume that no dividends have been paid.)	19,6

Next, we need to calculate the **cash** in bank. We follow the movements of money from the bank as follows:

Cash in Bank = Initial Cash + Inflows – Outflows

$$\begin{aligned}
 &= 100 \text{ (Paid in Capital from Shareholders)} \\
 &+ 37,5 \text{ (collected from customers = } 9/12 * 50, \text{ collection period = 3 months)} \\
 &- 20,0 \text{ (raw material purchase)} \\
 &- 20,0 \text{ (land purchase)} \\
 &- 20,0 \text{ (equipment purchase)} \\
 &- 10,0 \text{ (labour expense)} \\
 &- \mathbf{8,4 \text{ (tax expense)} }^{(1)} \\
 &= 59,10 \text{ m.u.} \quad (3)
 \end{aligned}$$

(Note that depreciation expense does not have a cash flow implication.)

PRACTICES TOPIC 3: FINANCIAL STATEMENTS**Balance Sheet (For the period ending 31/12/2017): (All figures are in m.u.)**

ASSETS		EQUITIES	
Current Assets		Liabilities	
Cash ⁽³⁾	59,1 ⁽³⁾	Current Liabilities	0
Accounts Receivables	12,5 (=50-37,5)	Non Current Liabilities	0
Inventory	10,0 (50% of 20)	Total Liabilities	0
Total Current Assets	81,6		
Non Current Assets		Shareholder's equity	
Land	20 (not depreciated)	Paid in Capital	100,0
Equipment (20 less depreciation of 2)	18	Retained Earnings	19,6 ⁽²⁾
Total Non Current Assets	38		
Total Assets	119,6	Total Equities	119,6