POLITECNICO MILANO 1863

Accounting Finance & Control

Financial statements

Exercises

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Exercise 1

The following data as of December 31st, 2020, refer to Foody Ltd, a company that produces and sells bakery and meal solutions (k€ = thousands €):

- Number of shares: 112,000 k
- Nominal value of shares: 1 €/share
- Market price of shares: 2 €/share
- Reserves: 800,000 k€
- Total Equity: 1,272,000 k€
- Income taxes: 60,000 k€
- Taxes paid: 80,000 k€
- Revenues: 3,850,000 k€
- Other income: 10,000 k€
- Cost of Goods Sold (COGS): 2,620,000 k€
- Selling and marketing expenses: 300,000 k€
- Administrative expenses: 350,000 k€

Exercise 1

A portion of raw materials used for production activities in December 2020, that amounts to 100,000 k€, will be paid in January 2021.

You also know that at the beginning of the year, the number of shares outstanding was 100,000 k.

Data about financial income and financial interests are not reported, but they are NOT NULL.

Given the available data, which of the following statements is CORRECT:

A. Tax rate around 14%; Gross Profit = 1,230,000 k€

B. Tax rate around 14%; Gross Profit = 1,130,000 k€

C. Tax rate around 19%; Financial income – financial interests = 282,000 k€

D. Tax rate around 18%; Financial income – financial interests = 150,000 k€

Exercise 1 Solution

Net profit of the year = Equity - Reserves – Share capital = 1,272,000 k€ - 800,000 k€ - 112,000 k€ = 360,000 k€

EBT = Income taxes + net profit = 60,000 k€ + 360,000 k€ = 420,000 k€

Tax rate = 60,000 k€ / 420,000 k€ = 14%

Revenues - Cost of Goods Sold = Gross profit = 3,850,000 k€ - 2,620,000 k€ = 1,230,000 k€

A. Correct

B. Wrong the calculation of the gross profit: the 100,000 paid in 2021 are deducted from cost of sales.

C. Tax rate calculated over EBIT; Gross profit includes other income.

D. A is actually correct

Exercise 2

The company LC Ltd is a brake discs manufacturer that produces and sells brakes using a make to stock production strategy. The company adopts the FIFO approach for accounting its inventories of raw materials and finished goods. The inventories of finished goods are accounted through a full product cost method, which can be assumed constant within the year.

You have the following data as of December 31st, 2020:

- Revenues: 2,000 mln€
- Brakes sold: 5,600,000 units
- Raw materials purchased: 1,054 mln€
- Raw materials inventories for an overall value of 30 mln€
- Finished goods inventories: 1,200,000 units for an overall value of 355.2 mln€
- Selling, marketing, general & administrative expenses: 200 mln€
- Financial expenses: 300 mln€
- Corporate tax rate: 40%

Exercise 2

You know also that in December 2020, LC has received from MC Ltd the advanced payment of the 2021 rental fee of a prestigious building (fee: 8 mln€). MC Ltd is renting this building for the first time.

Finally, the inventories as of December 31st, 2019 were:

- Raw materials inventories for an overall value of 40 mln€
- Finished goods inventories: 1,000,000 units for an overall value of 300 mln€

Based on the available data, it is CORRECT that EBIT (2020) of LC Ltd is around:

a) 146.4 mln€

b) 138.4 mln€

c) 148.4 mln€

d) 142.4 mln€

Exercise 2 Solution

355.2/1.2

Revenues = 2,000 mln €

Cost of goods sold = 1,000,000 u*300€/u + 4,600,000u*296€/u = 1,661.6 mln€

SGA = 200 mln €

EBIT = 138.4 mln€

a) Wrong: it considers the rent as other income which is not in line with the accrual principle

b) Correct 138.4 mln€

c)Wrong: it considers the Variation of inventories of raw materials as an additional cost in the cost of goods sold

d)Wrong: cost of good sold is estimated based on the unitary cost sustained in the year, without considering the inventories dynamics