IESE Business School
University of Navarra

Foundations of Management Specialization
Accounting: Making Sound Decisions
Prof. Marc Badia

Week 2: "The Income Statement"

Transactions for period x1:

1. Purchase of books on credit for €130,000.
2. The Campus Bookstore sells books to individual customers who pay in cash. During x1, the total amount of cash sales is €120,000. The books sold in cash have a total purchase cost of €80,000.
3. The Campus Bookstore sells books on credit to the school and other corporate customers. During x1, the total amount of credit sales is €60,000. The cost of the books sold on credit is €45,000.
4. The Campus Bookstore pays €30,000 in cash for the selling, general and administrative costs incurred in x1. They include Cristina's salary and utilities.
5. In x1, the Campus Bookstore incurs in a rent expense of €6,000. This amount was already prepaid at the end of year x0.
6. On December 31st of x1, the Campus Bookstore prepays €6,600 for the rent of year x2.
7. The cash collected from credit sales is €38,000.
8. The Campus Bookstore pays €10,000 to furniture and equipment suppliers, cancelling the pending obligation.
9. The Campus Bookstore recognizes the depreciation of furniture and equipment in x1. The original purchase cost of furniture and equipment was €25,000. Cristina estimated a useful life of five years and no salvage value for this asset.
10. The Campus Bookstore recognizes the amortization of the software in x1. The original purchase cost of the software was €3,000. Cristina estimated a useful life of three years and no salvage value for this intangible asset.
11. At the end of x1, the Campus Bookstore recognizes and pays the interest cost on the bank loan. The bank charges an interest of 5% for the €20,000 loan, that is, €1,000.
12. In x1, the Campus Bookstore makes a profit before taxes of €12,000 and recognizes corporate taxes of €3,600 (i.e. 30% x 12,000). This amount will be paid later in x2 when the tax forms are filed.