

**ACC1701X**  
**ACCOUNTING FOR DECISION MAKERS**  
**SEMESTER 1 2022 / 2023**

**TUTORIAL 4 ANSWER SOLUTION**  
Financial Statements Overview

**Analytical Cumulative Case – HaloCrypto Inc.**

*(Refer also to the excel solution file on Canvas)*

**Part 1**

TRIAL BALANCE @ Jun 30, 2022		Unadjusted		Ref	Adjustments		Adjusted	
		Debit	Credit		Debit	Credit	Debit	Credit
Cash		23,200		(c)		4,500	16,200	
				(g)		2,500		
Receivables		29,000					29,000	
Prepaid Rent		0		(c)	4,500		4,500	
Inventory		156,000					156,000	
Property, Plant & Equipment (PPE)		202,000					202,000	
Accumulated Depreciation			9,000	(e)		13,000		22,000
Accounts Payable			67,000					67,000
Interest Payable			0	(a)		3,000		3,000
Salaries Payable			0	(b)		650		650
Unearned Revenue			10,000	(d)	5,000			5,000
Long-term Debt			207,000					207,000
Share Capital			50,000					50,000
Retained Earnings (as of July 1, 2021)			46,000					46,000
Dividends		0		(g)	2,500		2,500	
Sales			770,000	(d)		5,000		775,000
Cost of Goods Sold		569,000		(f)		1,500	567,500	
Depreciation Expense		0		(e)	13,000		13,000	
Rent Expense		1,500					1,500	
Insurance Expense		800		reclass	8,800		9,600	
Salaries Expense		4,500		(b)	650		54,650	
				reclass	49,500			
Utilities Expense				reclass	8,600		8,600	
Consulting Fees Expense				reclass	20,000		20,000	
Marketing Expense				reclass	64,000		64,000	
Other Operating Expenses		160,000		reclass		150,900	9,100	
Interest Expense		9,000		(a)	3,000		12,000	
Income Tax Expense		4,000		(f)	1,500		5,500	
		1,159,000	1,159,000		181,050	181,050	1,175,650	1,175,650

## Part 2

HaloCrypto Inc.		
Statement of Profit & Loss		
For the Year Ended June 30, 2022		
	Sales Revenue	775,000
	Cost of Goods Sold	(567,500)
	Gross Profit	207,500
	Depreciation Expense	(13,000)
	Rent Expense	(1,500)
	Insurance Expense	(9,600)
	Salaries Expense	(54,650)
	Utilities Expense	(8,600)
	Consulting Fees Expense	(20,000)
	Marketing Expense	(64,000)
	Operating Expense	(9,100)
	Operating Income	27,050
	Interest Expense	(12,000)
	Profit Before Tax	15,050
	Income Tax Expense	(5,500)
	<b>Net Income</b>	<b>9,550</b>

HaloCrypto Inc.		
Statement of Financial Position		
As at June 30, 2022		
	<b>Assets</b>	
	Current Assets:	
	Cash	16,200
	Receivables	29,000
	Prepaid Rent	4,500
	Inventory	156,000
	Total Current Assets	205,700
	Non-current Assets:	
	Property, Plant & Equipment	202,000
	Less: Accumulated Depreciation	(22,000)
	Total Non-current Assets	180,000
	<b>Total Assets</b>	<b>385,700</b>
	<b>Liabilities</b>	
	Current Liabilities:	
	Accounts Payable	67,000
	Interest Payable	3,000
	Salaries Payable	650
	Unearned Revenue	5,000
	Total Current Liabilities	75,650
	Non-current Liabilities:	
	Long term Debt	207,000
	Total Liabilities	282,650
	<b>Equity</b>	
	Share Capital	50,000
	Retained Earnings	53,050
	Total Equity	103,050
	<b>Total Liabilities &amp; Equity</b>	<b>385,700</b>

HaloCrypto Inc.			
Statement of Changes in Equity			
For the Year Ended June 30, 2022			
	Share	Retained	Total
	Capital	Earnings	Equity
Beginning Balance	\$ 50,000	\$ 46,000	\$ 96,000
Net Income		\$ 9,550	\$ 9,550
Dividends		\$ (2,500)	\$ (2,500)
Ending Balance	\$ 50,000	\$ 53,050	\$ 103,050

### Part 3

<i>Closing Entry @ June 30, 2022</i>		
<b>Sales</b>	<b>775,000</b>	
<b>Cost of Goods Sold</b>		<b>567,500</b>
<b>Depreciation Expense</b>		<b>13,000</b>
<b>Rent Expense</b>		<b>1,500</b>
<b>Insurance Expense</b>		<b>9,600</b>
<b>Salaries Expense</b>		<b>54,650</b>
<b>Utilities Expense</b>		<b>8,600</b>
<b>Consulting Fees Expense</b>		<b>20,000</b>
<b>Marketing Expense</b>		<b>64,000</b>
<b>Other Operating Expenses</b>		<b>9,100</b>
<b>Interest Expense</b>		<b>12,000</b>
<b>Income Tax Expense</b>		<b>5,500</b>
<b>Retained Earnings</b>		<b>9,550</b>
<b>Retained Earnings</b>	<b>2,500</b>	
<b>Dividends</b>		<b>2,500</b>

### Part 4

TRIAL BALANCE @ Jun 30, 2022	Adjusted		Closing Entries		Post Closing	
	Debit	Credit	Debit	Credit	Debit	Credit
Cash	16,200				16,200	
Receivables	29,000				29,000	
Prepaid Rent	4,500				4,500	
Inventory	156,000				156,000	
Property, Plant & Equipment (PPE)	202,000				202,000	
Accumulated Depreciation		22,000				22,000
Accounts Payable		67,000				67,000
Interest Payable		3,000				3,000
Salaries Payable		650				650
Unearned Revenue		5,000				5,000
Long-term Debt		207,000				207,000
Share Capital		50,000				50,000
Retained Earnings		46,000	2,500	9,550		53,050
Dividends	2,500			2,500	0	
Sales		775,000	775,000			0
Cost of Goods Sold	567,500			567,500	0	
Depreciation Expense	13,000			13,000	0	
Rent Expense	1,500			1,500	0	
Insurance Expense	9,600			9,600	0	
Salaries Expense	54,650			54,650	0	
Utilities Expense	8,600			8,600	0	
Consulting Fees Expense	20,000			20,000	0	
Marketing Expense	64,000			64,000	0	
Other Operating Expenses	9,100			9,100	0	
Interest Expense	12,000			12,000	0	
Income Tax Expense	5,500			5,500	0	
	1,175,650	1,175,650	777,500	777,500	407,700	407,700

## Part 5

<b>(i)</b>	<b>Net Profit Margin</b>	<b>0.012</b>
	Net Income	9,550
	Net Sales	775,000
<b>(ii)</b>	<b>Return on Assets</b>	<b>0.026</b>
	Net Income	9,550
	Beginning Total Assets	353,000
	Ending Total Assets	385,700
	Average Total Assets	369,350
<b>(iii)</b>	<b>Debt Ratio</b>	<b>0.733</b>
	Total Liabilities	282,650
	Total Assets	385,700

## Part 6

(a) HaloCrypto had previously recorded a fictitious credit sale of \$5000. No additional COGS was recorded at the time the fictitious credit sale was recorded.

Correcting Journal Entry:

Sales	5,000				
Receivables		5,000			
	<b>Original (error)</b>	<b>Corrections</b>		<b>Corrected</b>	
<b>Net Profit Margin</b>	<b>0.012</b>				<b>0.006</b>
Net Income	9,550	(5,000)	decrease		4,550
Net Sales	775,000	(5,000)	decrease		770,000
<b>Return on Assets</b>	<b>0.026</b>				<b>0.012</b>
Net Income	9,550	(5,000)	decrease		4,550
Beginning Total Assets	353,000				353,000
Ending Total Assets	385,700	(5,000)	receivables decrease		380,700
Average Total Assets	369,350				366,850
<b>Debt Ratio</b>	<b>0.733</b>				<b>0.742</b>
Total Liabilities	282,650				282,650
Total Assets	385,700	(5,000)	receivables decrease		380,700

- The fictitious sale inflated the sales revenue, net income and total assets, causing profit margin and ROA to be much higher than what it should have been. For example, Net profit margin with the fictitious sale is 0.012, but without this fictitious transaction, it would have only been 0.006.
- The inflated assets also caused the debt ratio to be lower than what it should have been.
- The fictitious sale has made HaloCrypto's financial performance look better than what it really is, and is misleading to users of its financial statements.

(b) HaloCrypto discovered it had previously recorded an incorrect debit entry of \$5,000 to inventory when the amount should have been expensed off as operating expenses.

<i>Correcting journal entry:</i>					
Other Operating Expenses	5,000				
Inventory		5,000			
	<b>Original (error)</b>	<b>Corrections</b>		<b>Corrected</b>	
<b>Net Profit Margin</b>	<b>0.012</b>				<b>0.006</b>
Net Income	9,550	(5,000)	decrease		4,550
Net Sales	775,000				775,000
<b>Return on Assets</b>	<b>0.026</b>				<b>0.012</b>
Net Income	9,550	(5,000)	decrease		4,550
Beginning Total Assets	353,000				353,000
Ending Total Assets	385,700	(5,000)	inventory decrease		380,700
Average Total Assets	369,350				366,850
<b>Debt Ratio</b>	<b>0.733</b>				<b>0.742</b>
Total Liabilities	282,650				282,650
Total Assets	385,700	(5,000)	inventory decrease		380,700

- The error had caused net income and total assets to be higher than what they should have been, causing the original ratios to be higher than the corrected ones. For example, the original net profit margin is 0.012, when it should be 0.006. And for ROA it should have been 0.012 instead of 0.026.
- The classification error has made HaloCrypto's financial performance look better than what it really is, and is misleading to users of its financial statements.

(c) HaloCrypto discovered it previously misclassified \$20,000 worth of loan as long-term (non-current) when it should have been short term (current).

<i>Correcting journal entry:</i>					
Long term Debt	20,000				
Short term Debt		20,000			
	<b>Original (error)</b>	<b>Corrections</b>		<b>Corrected</b>	
<b>Net Profit Margin</b>	<b>0.012</b>				<b>0.012</b>
Net Income	9,550				9,550
Net Sales	775,000				775,000
<b>Return on Assets</b>	<b>0.026</b>				<b>0.026</b>
Net Income	9,550				9,550
Beginning Total Assets	353,000				353,000
Ending Total Assets	385,700				385,700
Average Total Assets	369,350				369,350
<b>Debt Ratio</b>	<b>0.733</b>				<b>0.733</b>
Total Liabilities	282,650	20,000	current liabilities		282,650
		(20,000)	non-current liabilities		

- The misclassification caused current liabilities to be lower than what it should be, and non-current liabilities to be higher. However, the total liabilities is unaffected by the misclassification. As such, there are no effect on the three ratios.
- The classification error did not really have an effect on the evaluation of the company's performance based on the three ratios. However, the difference in current and non current liabilities balances due to the misclassification could potentially affect a user's evaluation of the company should other ratios be used for decision making, such as the current ratio.