MSc in Financial Management

Course: Introduction to Accounting – Solution to Practice Exercises

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Exercise 1.

Step 1) Recognize all the accounts as Assets, Liabilities and Equity.

Step 2) Apply the Accounting Equation: Assets = Liabilities + Shareholders' Equity. Calculate the missing amounts: First you can find Cash, Second Total Liabilities, Third Total Equity and Last Ret. Earnings.

Step 3) Make the Balance Sheet.

Alpha Corporation **Balance Sheet** **31 December 2016**			
Assets		**Liabilities**	
Current Assets		*Current Liabilities*	
Cash	1.421	Accounts payable	2.695
Inventories	3.963	*Non Current Liabilities*	
Non Current Assets		Long-term debt	4.650
Property, plant and equipment	4.899	Other long-term liabilities	16.598
Other long-term assets	23.779	**Total Liabilities**	**23.943**
		Equity	
		Common stock	5.756
		Retained earnings	4.363
		Total Shareholders' Equity	**10.119**
Total Assets	**34.062**	**Total Liabilities & Equity**	**34.062**

Exercise 2.

The same process as above.

Beta Inc. Balance Sheet 31 December 2016			
Assets		**Liabilities**	
Current Assets		*Current Liabilities*	
Cash	21	Accounts payable	1.099
Inventories	2.857	Other current liabilities	2.767
Other current assets	3.592	*Non Current Liabilities*	
Non Current Assets		Long-term debt	4.035
Property, plant and equipment	5.466	**Total Liabilities**	**7.901**
		Equity	
		Common stock	144
		Retained earnings	3.891
		Total Shareholders' Equity	**4.035**
Total Assets	**11.936**	**Total Liabilities & Equity**	**11.936**

Exercise 3.

ABC Income Statement For the period ended 31 December 2016		
Sales Revenue		457.600
Cost of Sales		205.000
Gross Profit		*252.600*
Operating Expenses		157.700
Salaries	108.700	
Rent	40.000	
Utilities	9.000	
Operating Income		*94.900*
Interest Expense		10.800
Income before Taxes		*84.100*
Tax Expense		7.700
Net Income		**76.400**

Exercise 4.

Creative Ads, Inc. **Income Statement** For the period ended 31 December 2016		
Advertising Service Revenue		165.200
Operating Expenses		162.600
Salaries	86.000	
Office Rent	13.500	
Equipment Rent	37.200	
Marketing expense	6.800	
Utilities	19.100	
Operating Income		*2.600*
Tax Expense		560
Net Income		**2.040**

Exercise 5.

OMEGA Inc. **Income Statement** For the period ended 31 December 2016		
Sales Revenue		600.000
Cost of Goods Sold		200.000
Gross Profit		*400.000*
Operating Expenses		320.800
Commissions Expense	225.000	
Wages Expense	32.000	
Office Rent	36.000	
Marketing Expense	20.100	
Supplies Expense	2.600	
Utilities	5.100	
Operating Income		*79.200*
Income before Taxes		*79.200*
Income Tax Expense		27.000
Net Income		**52.200**

OMEGA Inc. **Statement of Retained Earnings** For the period ended 31 December 2016	
Retained Earnings, 31/12/15	35.300
+ Net Income	52.200
-Dividends	(33.000)
Retained Earnings, 31/12/16	54.500

OMEGA Inc. Balance Sheet 31 December 2016			
Assets		**Liabilities**	
Current Assets		*Current Liabilities*	
Cash	57.700	Accounts payable	3.600
Accounts receivable	4.500	Commissions payable	22.700
Supplies	700	Income tax payable	13.000
Non Current Assets		**Total Liabilities**	**39.300**
Equipment	59.900	**Equity**	
		Common stock	29.000
		Retained earnings	54.500
		Total Shareholders' Equity	**83.500**
Total Assets	**122.800**	**Total Liabilities & Equity**	**122.800**

Exercise 6.

ABC Co. Income Statement For the period ended 31 December 2016		
Service Revenue		161.000
Operating Expenses		58.800
Salaries Expense	30.800	
Rent Expense	17.000	
Insurance Expense	2.300	
Utilities	8.700	
Operating Income		*102.200*
Interest Expense		2.900
Income before Taxes		*99.300*
Tax Expense		2.100
Net Income		**97.200**

ABC Co. Statement of Retained Earnings For the period ended 31 December 2016	
Retained Earnings, 31/12/15	109.600
+ Net Income	97.200
-Dividends	(28.000)
Retained Earnings, 31/12/16	178.800

ABC Co. Balance Sheet 31 December 2016			
Assets		**Liabilities**	
Current Assets		*Current Liabilities*	
Cash	17.000	Accounts payable	9.000
Accounts receivable	25.000	Interest payable	1.200
Non Current Assets		*Non Current Liabilities*	
Land	68.000	Note payable	54.000
Building	123.000	**Total Liabilities**	**64.200**
Equipment	37.100	**Equity**	
		Common stock	27.100
		Retained earnings	178.800
		Total Shareholders' Equity	**205.900**
Total Assets	**270.100**	**Total Liabilities & Equity**	**270.100**