



Assignment Guidelines

Professor Leonidas C. Doukakis

Group Assignment: Financial Statement Preparation and Transaction Recording

Objective:

The purpose of this assignment is to assess students' ability to apply the financial accounting concepts and techniques learned during the course. Students are required to form groups of two members and announce their group composition to the professor via email (ldoukakis@aub.gr). Each group will select a publicly listed company, record hypothetical transactions, and prepare semi-annual financial statements.

1. Company Selection:

Each group must select a publicly listed company and obtain in excel format its most recent full-year financial statements, including the Balance Sheet and Income Statement. No two groups may select the same company (companies assigned on a first-come, first-served basis). Students should select a company for which the hypothetical transactions are relevant and realistic (e.g., retailer).

2. Hypothetical Transactions:

Groups will be provided with a set of hypothetical accounting transactions (e.g., sales, purchases, loans, depreciation, etc.) that reflect typical business activities. All transaction amounts will be calculated as a percentage or fraction of last year's figures (e.g., sales, total assets). The transactions will cover a six-month period. In addition to recording transactions, students must also make adjusting entries at the end of the six-month period. Balance sheet accounts that are not affected by these hypothetical transactions should retain their prior year-end balances.

3. Updated Semi-Annual Financial Statements:

Based on the recorded transactions and adjusting entries, each group must prepare updated semi-annual financial statements:

- Balance Sheet as of the six-month period-end.
- Income Statement for the six-month period.

4. Submission Requirements:

The final submission must be in Excel format and include the following:

- Hypothetical journal entries with brief explanations.
- The trial balance.
- Adjusting entries with brief explanations.
- The adjusted trial balance.
- The updated semi-annual Balance Sheet and Income Statement.

The file should be named as follows: "Surname 1_Surname 2_CompanyName.xlsx".

5. Evaluation Criteria:

Group performance will be evaluated based on:

- the accuracy of the recorded transactions and journal entries
- the correctness of the trial balances
- the overall quality and accuracy of the updated financial statements.

The assignment will count for 20% of the final grade, provided that the student achieves a passing grade on the final written exam.

Important dates:

25/10/2024: Deadline for submitting the group composition and selected company (via email).

One week after the end of the course: Deadline for submitting the completed assignment electronically via eclass – only one member of the group should submit the assignment.

Hypothetical Transactions

Percentages of sales, total assets, or other measures should refer to last year's full-year figures

All amounts should be rounded to the nearest whole number to avoid decimal points

1. Purchase of Inventory on Credit: The company purchased inventory on account worth 12% of total sales.
2. Prepaid Insurance: The company pre-paid an annual insurance premium amounting to 2% of total operating expenses.
3. Sale of Inventory: The company sold 60% of the inventory on hand for cash. The selling price included a markup of 30% on the cost of the inventory sold.
4. Accounts Receivable Collection: The company collected 30% of outstanding accounts receivable from customers.
5. Purchase of Supplies on Account: The company purchased office supplies worth 3% of total sales on account.
6. Unearned Revenue: The company received 5% of total sales from clients in advance for services to be performed in the future.
7. Operating Expenses: The company paid the following cash expenses: Salaries expense equal to 1% of total sales; Office/store rent equal to 0.5% of total assets.
8. Mortgage Loan: The company took out a mortgage loan at the beginning of the period, worth 10% of total assets, with an annual interest rate of 6%.
9. New Equipment Purchase: The company purchased equipment valued at 7% of total assets, paid half in cash and half on account.
10. Utility Expense Incurred but Unpaid: The company received a utility bill for 0.7% of total sales, which will be paid after the semi-annual financial statements are prepared.

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Adjusting Entries for the preparation of the semi-annual financial statements

1. **Supplies Used:** At the end of the six-month period, 70% of the supplies purchased during the year were used, and the remaining are still in stock.
2. **Depreciation of Assets:** The company applies the following annual depreciation rates: (Tangible assets at 2% of its value, except for the new equipment purchased that is depreciated only for 6 months with an annual depreciation rate of 4%).
3. **Prepaid Insurance Adjustment:** The company's prepaid insurance covers 12 months, but only 4 months have been used by the time of the preparation of the semi-annual financial statements.
4. **Accrued Salaries/Wages:** The company owes salaries amounting to 0.6% of total sales, which remain unpaid as of the preparation of the semi-annual financial statements.
5. **Accrued Interest on Mortgage Loan:** Interest on the mortgage loans (the one taken out at the beginning of the period and the other potentially existing at the beginning of the year) should be accrued for 6 months assuming an annual interest rate of 6%, payable at the end of the year.
6. **Recognition of Unearned Revenue:** Half of the unearned revenue has been earned.
7. **Rental Income Receivable:** The company has accrued rental income amounting to 0.5% of total assets, which must be recorded even though it has not yet been collected.

Tax Rate: If the company reports a profit, apply a tax rate of 22%. In the case of a loss, no tax is applied. The tax expense should be recognized in the income statement, while the corresponding tax liability should be recorded on the balance sheet, assuming the tax will be paid in the future.

Dividends: The company will distribute 20% of its net income as dividends, payable at the end of the year. If the company incurs a loss, no dividends are distributed.