Financial Information & Accounting Concepts
In-class exercise

1. What is the function and primary objective of financial accounting as opposed to managerial accounting?

2. Define elements of financial statements.

3. Briefly explain accounting process.

4. For each of the items listed below, identify the appropriate financial statement element or elements

a. Obligation to transfer cash or other resources as a result of a past transaction
b. Inflow of an asset from providing a good or service
c. An item owned by the company representing probable future benefits.
d. The financial position of a company
e. Increase in equity from ongoing business transactions
f. The owners' residual interest in the assets of a company
g. Revenues less expenses
h. Outflow of an asset related to the production of revenue
i. Assets less owner's equity
j. An owner's contribution of cash to a company
k. Net profit of a company

5. Pastina Company manufactures and sells various types of pasta to grocery chains. The company asks you to help classifying their accounts into one of the five accounting elements.

Account Title

- Accounts receivable
- Sales – Pasta's sauce
- Inventory
- Cash
- Owner's drawing
- Salary payable
- Service revenue
- Cost of goods sold
- Equipment
- Prepaid rent
- Notes payable – due in 5 years
- Unearned sales revenue
- Equipment – factory machine
- Employee's salary
- Share capital
- Prepaid insurance
- Depreciation
- Interest receivable

- Rent expense
- Building
- Notes payable – due in 6 months
- Taxes payable
- Owner's capital

6. The following unclassified post-closing balance accounts of Jackson Co., Ltd. as at end of December 31, 2018. Prepare classified statement of financial position for Jackon Co., Ltd.

Accounts Title	Debits	Credits
Ordinary share capital		100,000
Cash	40,000	
Accounts receivable	34,000	
Inventories	75,000	
Accounts payable		8,000
Wages payable		4000
Prepaid rent	16,000	
Marketable securities (short-term)	10,000	
Machinery	145,000	
Accumulated depreciation – machinery		11,000
Patent (net of amortization)	83,000	
Taxes payable		32,000
Bonds payable (due in 10 years)		200,000
Retained earnings		48,000
TOTAL	**403,000**	**403,000**

7. The data listed below are taken from the statement of financial position of Trident Corporation. Some amounts, indicated by question marks, have been intentionally omitted. You are required to determine the missing amounts and prepare a classified statement of financial position.

	$
Cash	239,186
Short-term investments	353,700
Accounts receivable	504,944
Inventories	?
Prepaid expenses (current)	83,529
Total current assets	1,594,927
Long-term receivables	110,800
Property & Equipment (net)	?
Total assets	?
Notes payable	31,116
Accounts payable	?
Short-term debt	421,772
Other current liabilities	181,604
Total current liabilities	693,564
Long-term debt	?
Total liabilities	956,140
Shareholders' equity	1,370,627

8. Willow Company manufactures and sells travel luggages. In their 2017 and 2018 financial years, they sold its specific type of luggage 800 units and 1200 respectively at 2,500 THB each. Cost of goods sold per unit was 350 THB in year 2017 and 400 THB in 2018. Selling, General & Administration expenses for 2017 and 2018 was 90,000 THB and 900,000 THB respectively. In both financial years, the company paid 30,000 THB interest expenses and paid their income tax at 30% of the operating income.

a.) Construct a comparative Income Statement for the company for both financial years.

b.) Calculate gross profit ratio and net profit ratio. Briefly interpret the results.

9. Explain why a company should perform profitability and financial risks analysis.

10. Explain the purpose of using the following financial ratios:

- gross profit ratio;
- net profit ratio;
- return on assets;
- return on equity;
- current ratio;
- quick ratio;
- debt ratio;
- debt to equity ratio.

11. Barry's Superstore is a merchandising company that sells a variety of products. Below is their comparative Income Statement & Balance Sheets for the past two years. Prepare profitability and financial risks analysis using the financial ratios covered in class.

BARRY'S SUPERSTORE Comparative Year-End Income Statements			BARRY'S SUPERSTORE Comparative Year-End Balance Sheets		
	Prior Year	Current Year		Prior Year	Current Year
Net Sales	$100,000	$120,000	**Assets:**		
Cost of Goods Sold	50,000	60,000	Cash	$90,000	$110,000
Gross Profit	50,000	60,000	Accounts Receivable	20,000	30,000
			Inventory	35,000	40,000
Rent Expense	5,000	5,500	Short-Term Investments	15,000	20,000
Depreciation Expense	2,500	3,600	Total Current Asstes	160,000	200,000
Salaries Expense	3,000	5,400	Equipment	40,000	50,000
Utility Expense	1,500	2,500	**Total Assets**	$200,000	$250,000
Operating Income	38,000	43,000	**Liabilities:**		
			Accounts Payable	$ 60,000	$ 75,000
Interest Expense	3,000	2,000	Unearned Revenue	10,000	25,000
Income Tax Expense	5,000	6,000	Total Current Liabilities	70,000	100,000
Net Income	$ 30,000	$ 35,000	Notes Payable	40,000	50,000
			Total Liabilities	110,000	150,000
			Stockholder Equity		
			Common Stock	75,000	80,000
			Ending Retained Earnings	15,000	20,000
			Total Stockholder Equity	90,000	100,000
			Total Liabilities and Stockholder Equity	$200,000	$250,000