

D14 Financial accounting – Solutions

1

a and b

Criteria	Assets	Liabilities	up to 1 year	> 1 year
Cash	×		×	
Property	×			×
Mortgages		×		×
Share capital		×		×
Facilities	×			×
Accounts payable		×	×	
Loans		×		×
Bank	×		×	
Accounts receivable	×		×	
Vehicles	×			×
Inventories	×		×	
Retained earnings		×		×
Machines	×			×
Post	×		×	

c

Balance sheet as of 12/31/2012 (in CHF)

Assets		Liabilities	
Current assets		Debt	
Cash	2,000	Accounts payable	12,000
Post	4,000	Loans	112,000
Bank	18,000	Mortgages	135,000
Accounts receivable	6,500		<u>259,000</u>
Inventories	12,000		
	<u>42,500</u>		
Fixed assets		Equity	
Machines	66,000	Share capital	287,500
Facilities	80,000	Retained earnings	28,000
Vehicles	166,000		<u>315,500</u>
Property	220,000		
	<u>532,000</u>		
	<u>574,500</u>		<u>574,500</u>

2

Income statement 2012 (in CHF)

Expenses		Revenues	
Cost of goods sold	164,000	Sales revenue	280,000
Personnel expense	140,000	Repair revenue	80,000
Building expense	40,000	Other operating revenue	26,000
Insurance expense	6,000		
Advertising expense	17,000		
Other operating expenses	4,000		
Interest expense	17,000		
Depreciation	4,000		
		Loss	6,000
	<u>392,000</u>		<u>392,000</u>

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a

Value/hidden reserve	Calculation	Result
Actual value on 12/31/2012	$200,000 - (2 \cdot 20,000)$	160,000
Declared value on 12/31/2012	$200,000 - (2 \cdot 25,000)$	150,000
Hidden reserves in the first year	160,000 - 150,000	10,000

b

Adjusted balance sheet on 12/31/2012 (in CHF)

Assets		Liabilities	
Current assets		Debt	
Cash	3,000	Accounts payable	10,000
Post	3,000	Loans	72,000
Bank	12,000	Mortgages	80,000
Accounts receivable	5,000		<u>162,000</u>
Inventories	9,000		
	<u>32,000</u>		
Fixed assets		Equity	
Machines	30,000	Share capital	207,000
Facilities	40,000	Retained earnings	18,000
Vehicles	160,000		<u>225,000</u>
Property	125,000		
	<u>355,000</u>		
	<u>387,000</u>		<u>387,000</u>

- c Through the formation of hidden reserves (through the overstatement of accounts payable by CHF 2,000 and the undervaluation of the vehicles by CHF 10,000 and property by CHF 25,000 as of 12/31/2012) annual expenses increase. This, in turn, has a direct negative impact on net profits and equity.

When the hidden reserves are resolved, either the expenses will be reduced or revenues increased. This increases the net profits and because, this is attributed to the equity, equity is increased by the release of hidden reserves.

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Criteria	a) Cash flow yes/no?	b) Area of cash flow statement
a Payment of interest	yes (reduction)	business
b Depreciation on vehicles	no	-
c Sale of a used machine	yes (increase)	investing
d Payment of wages	yes (reduction)	business
e Cash purchases by customers	yes (increase)	business
f Taking out a bank loan	yes (increase)	financing
g Purchase of a new printer	yes (reduction)	investing
h Creation of hidden reserves on vehicles	no	-
i Payment of the rent	yes (reduction)	business
j Partial repayment of current liabilities	yes (reduction)	financing
k Payment of electricity bills	yes (reduction)	business