Remember to bring your one-sided 4" x 6" card with your notes on it to the exam. You will turn in with exam.

BUS312A/612A
Financial Reporting I

Balance Sheet & Statement of Cash Flows
Chapter 5
Statement of Cashflows: US GAAP vs. IFRS

US GAAP specifically identifies classifications of ambiguous accounts, such as:

- Interest paid (operating)
- Interest received (operating)
- Dividends paid (financing)
- Dividends received (operating)

Depending on their inclusion in net income.

IFRS allows judgment in classifications of ambiguous accounts, such as:

- Interest paid (operating or financing)
- Interest received (operating or investing)
- Dividends paid (operating or financing)
- Dividends received (operating or investing)
E 5-3. (Classification of Balance Sheet Accounts) Assume that Masters Enterprises uses the following headings on its balance sheet:

A. Current Assets
B. Investments
C. Property, Plant, and Equipment
D. Intangible Assets
E. Other Assets
F. Current Liabilities
G. Long-term Liabilities
H. Capital Stock
I. Paid-in Capital in Excess of Par
J. Retained Earnings

N = Note to the Financial Statements; X = Does not appear on the Financial Statements.

1. a  Prepaid insurance.
2. b  Stock owned in affiliated companies.
3. f  Unearned subscription revenue.
4. a  Advances to suppliers.
5. f  Unearned rent revenue.
6. h  Preferred Stock
7. i  Additional paid in capital on preferred stock.
8. d  Copyrights.
9. a  Petty cash fund.
10. f  Sales tax payable.
11. a  Accrued interest on notes receivable.
12. f  Twenty-year issue of bonds payable which will mature within the next year. (No sinking fund exists and refunding is not planned.)
13. a  Machinery retired from use and held for sale.
14. e  Fully depreciated machine still in use.
15. f  Accrued interest on bonds payable.
16. x  Salaries that company budget shows will be paid to employees within the next year.
17. f  Discounts on bonds payable. (Assume related to bonds payable in No. 12.)
18. e  Accumulated depreciation.
19. j  Noncontrolling interest.
Case 5-1

1. SL depreciation, 35 year service life on factory building for 15 years, change in 2012 to SL depreciation, 25 MORE years in service life. Effects on financial statements?

   \[ \text{Remaining Depreciable Base} = \frac{\text{Cost} - \text{AD} - \text{Salvage}}{\text{Remaining Life}} \]


   ISA BS - taxes Pay \rightarrow Inc Tax Exp

3. Accrual for 2011 salaries found in 2012 to have been overstated. Effects on financial statements?

   Nestate BegRE \rightarrow Increase RE

4. Cash dividend declared on 12/15/12, payable 2/1/13, to holders of record on 12/31/12. Effects on financial statements?

   12/15 Dividend \rightarrow RE
   12/31 No Entry
   2/1 DivPay \rightarrow Cash
The bookkeeper for Geronimo Company has prepared the following balance sheet as of July 31.

<table>
<thead>
<tr>
<th>Geronimo Company</th>
<th>AS OF JULY 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$ 69,000</td>
</tr>
<tr>
<td>Accounts receivable (net)</td>
<td>40,500</td>
</tr>
<tr>
<td>Inventories</td>
<td>60,000</td>
</tr>
<tr>
<td>Equipment (net)</td>
<td>84,000</td>
</tr>
<tr>
<td>Patents</td>
<td>21,000</td>
</tr>
<tr>
<td></td>
<td><strong>$274,500</strong></td>
</tr>
<tr>
<td>Notes and accounts payable</td>
<td><strong>$ 44,000</strong></td>
</tr>
<tr>
<td>Long-term liabilities</td>
<td>75,000</td>
</tr>
<tr>
<td>Stockholders Equity</td>
<td><strong>155,500</strong></td>
</tr>
<tr>
<td>Total</td>
<td><strong>$274,500</strong></td>
</tr>
</tbody>
</table>

The following additional information is provided:

1. Cash includes $1,200 in a petty cash fund and $15,000 in a bond sinking fund.

2. The net accounts receivable balance is comprised of the following three items: (a) accounts receivable-debit balances $52,000; (b) accounts receivable – credit balance $8,000; (c) allowance for doubtful accounts $3,500.

3. Merchandise inventory costing $5,300 was shipped out on consignment on July 31. The ending inventory balance does not include the consigned goods. Receivable in the amount of $5,300 were recognized on these consigned goods.

4. Equipment had a cost of $112,000 and an accumulated depreciation balance of $28,000.

5. Taxes payable of $6,000 were accrued on July 31. Geronimo Company, however, had set up a cash fund to meet this obligation. This cash fund was not included in the cash balance, but was offset against the taxes payable amount.

Prepare a corrected classified balance sheet as of July 31.
<table>
<thead>
<tr>
<th></th>
<th>Cash</th>
<th>AR</th>
<th>Inv</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal</td>
<td>18,000</td>
<td>52,000</td>
<td>40,000</td>
</tr>
<tr>
<td>①</td>
<td>15,000</td>
<td>8,000</td>
<td>3500</td>
</tr>
<tr>
<td>⑤ 6000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>③</td>
<td></td>
<td></td>
<td>5,300</td>
</tr>
<tr>
<td>⑥ 36,700</td>
<td></td>
<td>5,800</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Equity</th>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal</td>
<td>112,000</td>
<td></td>
</tr>
<tr>
<td>①</td>
<td></td>
<td></td>
</tr>
<tr>
<td>⑥ 112,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Allow. GDA</th>
<th>Tax Pay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bal</td>
<td>3500</td>
<td>0</td>
</tr>
<tr>
<td>②</td>
<td></td>
<td>6000</td>
</tr>
<tr>
<td>⑤ 3500</td>
<td></td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>15,000</td>
<td></td>
</tr>
<tr>
<td>Account</td>
<td>Amount</td>
<td></td>
</tr>
<tr>
<td>--------------------</td>
<td>------------</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$38,700</td>
<td></td>
</tr>
<tr>
<td>MC Allow</td>
<td>$3,500</td>
<td></td>
</tr>
<tr>
<td>LT Mt Bond Sinking Fund</td>
<td>$35,200</td>
<td></td>
</tr>
<tr>
<td>PPE</td>
<td>$65,300</td>
<td></td>
</tr>
<tr>
<td>Goodwill</td>
<td>$160,000</td>
<td></td>
</tr>
<tr>
<td>Total Assets</td>
<td>$28,000</td>
<td></td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$112,000</td>
<td></td>
</tr>
<tr>
<td>Total Equity</td>
<td>$582,000</td>
<td></td>
</tr>
<tr>
<td>Total Equity</td>
<td>$15,000</td>
<td></td>
</tr>
<tr>
<td>Notes</td>
<td>$15,000</td>
<td></td>
</tr>
<tr>
<td>Notes</td>
<td>$15,000</td>
<td></td>
</tr>
</tbody>
</table>
Current Liabilities

- Notes payable & Accounts payable: $44,000
- Income Tax Payable: 6,000

Long-term Liabilities

- Long term loan: $50,000
- 75,000

Shareholders Equity

- SHE: 155,500

Total Liabilities

- $125,000

Total Liabilities & SHE

- $280,500
The current assets and liabilities sections of the balance sheet of Scarlatti Company appear as follows:

<table>
<thead>
<tr>
<th>SCARLATTI COMPANY</th>
<th>BALANCE SHEET (PARTIAL)</th>
<th>DECEMBER 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$40,000</td>
<td>Accounts payable $61,000</td>
</tr>
<tr>
<td>Accounts receivable $89,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Allowance for doubtful accounts $7,000</td>
<td>$82,000</td>
<td></td>
</tr>
<tr>
<td>Inventories</td>
<td>$171,000</td>
<td>Notes payable $67,000</td>
</tr>
<tr>
<td>Prepaid expenses</td>
<td>$9,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>$302,000</td>
<td></td>
</tr>
</tbody>
</table>

The following errors in the corporation’s accounting have been discovered:

1. January 2015 cash disbursements entered as of December 2014 included payments of accounts payable in the amount of $39,000, on which a cash discount of 2% was taken.

   \[ \text{To correct reverse wrong entry} \]

   \[ \text{Cash} \rightarrow \text{Accounts payable} \]

   \[ \text{Write} \quad \text{AP} \rightarrow \text{Cash} \quad 39,000 \]

   \[ \text{Disc} \rightarrow \text{Cash} \quad 39,000 \cdot 0.02 \]

   \[ \text{Inv} \rightarrow \text{Cash} \quad 39,000 \cdot 0.02 \]

2. The inventory included $27,000 of merchandise that had been received at December 31 but for which no purchase invoices had been received or entered. Of this amount, $12,000 had been received on consignment; the remainder was purchased f.o.b. destination, terms 2/10, n/30.

   \[ \text{Inv} \rightarrow \text{Cash} \quad 12,000 \]

   \[ \text{AP} \rightarrow \text{Cash} \quad 15,000 \]

   \[ \text{Disc} \rightarrow \text{Cash} \quad 15,000 \cdot 0.02 \]

3. Sales for the first four days in January 2015 in the amount of $30,000 were entered in the sales book as of December 31, 2014. Of these, $21,500 were sales on account and the remainder were cash sales.

   \[ \text{To correct reverse wrong entry} \]

   \[ \text{Cash} \rightarrow \text{Accounts receivable} \]

   \[ \text{CR} \rightarrow \text{SAL} \quad 21,500 \]

   \[ \text{CR} \rightarrow \text{RE} \quad 30,000 \]

4. Cash, not including cash sales, collected in January 2015 and entered as of December 31, 2014, totaled $35,324. Of this amount, $23,324 was received on account after cash discounts of 2% had been deducted; the remainder represented the proceeds of a bank loan.

   \[ \text{To correct reverse wrong entry} \]

   \[ \text{Cash} \rightarrow \text{Disc} \]

   \[ \text{Disc} \rightarrow \text{Cash} \quad 23,324 \cdot 0.02 \]

   \[ \text{Inv} \rightarrow \text{Cash} \quad 12,000 \]

   \[ \text{NS} \rightarrow \text{Cash} \quad 12,000 \cdot 0.02 \]
<table>
<thead>
<tr>
<th></th>
<th>1/</th>
<th>2/</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>38,220</td>
<td>35,324</td>
<td>34,396</td>
</tr>
<tr>
<td>AR</td>
<td>89,000</td>
<td>21,500</td>
<td>100,000</td>
</tr>
<tr>
<td>Allow for DA</td>
<td>7000 Bal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Duped</td>
<td>Bal 9000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>NP</td>
<td>61,000 Bal</td>
<td>39,000</td>
<td>55,000</td>
</tr>
<tr>
<td></td>
<td>12,000</td>
<td>67,000 Bal</td>
<td></td>
</tr>
<tr>
<td>RE</td>
<td>780</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2/</td>
<td>27,000</td>
<td>47,6</td>
<td></td>
</tr>
<tr>
<td>3/</td>
<td>30,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>57,304 Decrease</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
EX 5-9

Current Assets

Cash
AR 91,300
Allow 7,000
Inv Prep

34,396
84,300
159,000
9,000

$ 284,696

Current Liabilities

AP
NP

115,000
55,000

170,000
Hope you had a good weekend. I have been a little confused with P3-6 from the
textbook. Specifically, the first entry. In my notes from class, I have that we
debited Service Revenue and credited Unearned Revenue for the adjusting entries.
But why would we not debit Cash and credit Unearned Revenue?

Can you explain these two questions for me please?

3. Which of the following generally provides a better indication of an enterprise's present and continuing abil
to generate favorable cash flows?

- A. Cash basis accounting.
- B. Accrual basis accounting.
- C. Managerial basis accounting.
- D. Financial basis accounting.

Incorrect. Accrual basis accounting better indicates present and continuing favorable cash flows for a company.

9. Which of the following publications is not considered a GAAP document?

- A. Statements of financial standards issued by the FASB
- B. Accounting interpretations issued by the FASB
- C. APB Opinions
- D. Accounting research studies issued by the AICPA
I was reading along in the text and found this passage

According to SFAC No. 5, to be recognized, an item (event or transaction) must meet the definition of an “element of financial statements” as defined in SFAC No. 6 and must be measurable. Most aspects of current practice follow these recognition and measurement concepts.

The accounting profession continues to use the concepts in SFAC No. 5 as operational guidelines.

Do we need to know what the different SFACs are and be able to identify which ones affect different things? Or just know what SFACs are as a whole?

Know Conceptual Framework Diagram

When we are calculating the cash from operating activities, the net change of Notes Payable, why are we directly using the balance sheet: 30-80; but when calculating the cash to Mortgage Payable, delta MP=20 (from T account) instead of 80(=360-280 from balance sheet)? In other words, when should we use numbers directly from the BS and when should we make T-accounts?

ΔCA + CL - Difference "O"

NCA or LT or CC or RE = make "IoF"

1. I thought any items below net income, such as extraordinary items, discontinued operations are exempted from tax. Why these items are required to show net of tax?
2. I have a question about the reversing entries. The book said "All deferrals for which a company debited or credited the original cash transactions to an expense or revenue account should be reversed". I feel that all the deferrals are related to expense or revenues. Can you give me some examples that deferrals do not need reversing entries.

A → E
L → R
ou
E → A
R → L
3 reverse these!

going to be tested for all the textbook's contents on IFRS or just those appears on the class handouts?
Question

What are the Statements of Financial Accounting Concepts intended to establish?

a. Generally accepted accounting principles in financial reporting by business enterprises.

b. The meaning of “Present fairly in accordance with generally accepted accounting principles.”

c. The objectives and concepts for use in developing standards of financial accounting and reporting.

d. The hierarchy of sources of generally accepted accounting principles.

According to the FASB conceptual framework, the objectives of financial reporting for business enterprises are based on?

a. Generally accepted accounting principles

b. Reporting on management’s stewardship.

c. The need for conservatism.

d. The needs of the users of the information.
Question

According to the FASB conceptual framework, an entity’s revenue may result from

a. A decrease in an asset from primary operations.

b. An increase in an asset from incidental transactions.

c. An increase in a liability from incidental transactions.

d. A decrease in a liability from primary operations.

Which of the following statements about the IASB and FASB conceptual frameworks is not correct?

a. The IASB conceptual framework does not identify the element comprehensive income.

b. The existing IASB and FASB conceptual frameworks are organized in similar ways.

c. The FASB and IASB agree that the objective of financial reporting is to provide useful information to investors and creditors.

d. FRS does not allow use of fair value as a measurement basis.
**IFRS SELF-TEST QUESTION**

The issues that the FASB and IASB must address in developing a common conceptual framework include all of the following except:

- **a.** Should the characteristic of relevance be traded-off in favor of information that is verifiable?
- **b.** Should a single measurement method be used?
- **c.** Should the common framework lead to standards that are principles-based or rules-based?
- **d.** Should the role of financial reporting focus on stewardship as well as providing information to assist users in decision-making?
income from operations. My question is does income from operations include other revenue or gains? Because in the notes on handout 9/17, the answer for textbook question E4-2, it adds other revenue and gains before getting the income from operations; however, in the CABRERA Company's income statement, it adds other revenue and gains on income from operations to get income before income tax. So I was wondering which one is correct way to calculate income from operations.

Another one that confuses me is that is the unusual gains and losses another name for other revenue and gains and other expense and losses? Also for the midterm, is that the correct order of recording ODEC on the income statement the same as your note for CABRERA Company? Thank you.