Exercise 1

	Dr.	Cr.
	$	$
Prenises	30000	
Furniture	15000	
Vehicles	4000	
Inventory	3400	
Bank	2300	
Capital		43500
Loan from ABC Bank		10000
Trade receivables and trade payables	2000	2300
Net profit		8500
Drawings	7600	
	64300	64300

Required:

Prepare balance sheet for F. Green as at 31 March 2015 in both horizontal and vertical style.

Note:

In the absence of information about the date of repayment of a liability, then it may be assumed that loan is a non-current liability and a trade payable is a current liability.

Exercise 2

	Debit	Credit
	$	$
Sales		40000
Purchases	18500	
Wages and salaries	5100	
Repairs and maintenance	1300	
Heating and lighting	900	
General expenses	1200	
Insurance	800	
Cash at bank	2200	
Cash in hand	1300	
Trade receivables	4100	
Trade payables		3400
Premises	30000	
Fixtures and fittings	10000	
Motor vehicle	8000	
Capital at 1 January 2014		52000
Drawings	12000	
	95400	95400

The following additional information is available:

Inventory at 31 December 2014 was valued at $4500.

Required:

(a) Prepare income statement for the year ended 31 December 2014.

(b) Prepare a balance sheet as at 31 December 2014.

Exercise 3

The airline achieved the following results in 2018:

Sales	CZK 300 million
Air transport costs (consumption of materials, purchased services, depreciation, labour costs)	CZK 210 million
Profit tax	CZK 10 million
Net profit	CZK 24,4 million

The invested capital is CZK 1.2 billion and consists of two thirds of interest-bearing foreign funds, mostly long-term bank loans with an average interest rate of 6.95%. Owners have considered the business risk associated with their investment in this company and the alternative options for investing their capital, and on the basis of these considerations, require an equity appreciation of 11%. The income tax rate is 24%.

- Calculate the amount of economic value added (EVA) and return on equity and interpret the results.

ROE = net profit / equity

Equity = 1/3 of CZK 1.2 billion = CZK 400 million

ROE = CZK 24.4 million / CZK 400 million

ROE = 0.061 * 100 = **6.1%**

EVA = NOPAT - cost of debt - cost of equity

Economic value added = operating profit after tax - cost of debt - cost of equity

Operating profit = 300 - 210 = CZK 90 million

Operating profit after tax (NOPAT) = 90 - 10 = CZK 80 million

Borrowing costs = 2/3 of CZK 1.2 billion = CZK 800 million * 0.0695 = CZK 55.6 million

Cost of equity = 1/3 of CZK 1.2 billion = CZK 400 million * 0.11 = CZK 44 million

EVA = 80 – 55.6 - 44 = **-19.6 mn CZK**

Exercise 4

LAK produces transparent wood lacquer. The production is fully automated, the largest cost items are the consumption of basic material (resin, oil, etc.) and depreciation of the production line. It was acquired 4 years ago for 85 000 CZK. And its estimated useful life is 10 years. In the 5th year of using the property, the market price of the production line is set at 90 000 CZK.

- What is the amount of depreciation in the 5th year of depreciation in financial accounting and management accounting?

Depreciation in financial accounting	85 000 CZK / 10	8 500 CZK
Depreciation in managerial accounting	90 000 CZK / 10	9 000 CZK

- Financial accounting and financial concept of costs works with the historical price (price on the invoice).
- Managerial accounting and value concept of costs work with the current purchase price.
- The economic concept of costs works with opportunity costs.

Exercise 5

The company JENA, which is engaged in manufacturing and business activities, bought goods worth CZK 100,000 at the end of last year. The goods sold for 120 000 CZK. He currently buys the same goods for CZK 106,000. In addition to the possibility to sell these goods, the company is considering that it can also be used as a semi-finished product in a newly manufactured product. The new product, based on preliminary calculations, based on current price ranges, can bring up to 10% cost-effectiveness.

- Express the cost of goods sold based on their financial, value (managerial) and economic concepts and determine the trade margin (profit) from the sale of goods.

Solution:

	Sales (CZK)	Costs (CZK)	Profit (CZK)
financial concept of costs	120 000	100 000	20 000
value concept of costs	120 000	106 000	14 000
economic concept of costs	120 000	106 000 + 10 % z 106 000 = 106 000 + 10 600 = 116 600 Kč	3 400

10% of CZK 106 000 = revenues from unrealized variant (use of goods as semi - finished products in new production.

Exercise 6

Mr. Cross decided to do business as a craftsman. According to various information, he found that he can earn about 500 thousand CZK per year, production and other costs will be 300 thousand CZK. The company has to invest CZK 1 million with an interest rate of 6%. However, business will lose its current monthly salary of 9 000 CZK.

- Calculate accounting profit and economic profit.

Solution:

Accounting profit (CZK)		**Economic profit (CZK)**	
Sales	500 000	Sales	500 000
Costs	300 000	Costs	300 000
Interest on financial capital	60 000 (6 % z 1 000 000)	Interest on financial capital	60 000 (6 % z 1 000 000)
Accounting profit	**140 000**	Opportunity costs - lost wages	108 000 (9 000 * 12)
		Economic profit	**32 000**