Chapter 2—Solutions

Questions

1. Consolidated financial statements are the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent company and its subsidiaries are presented as those of a single economic entity.
2. Group financial statements are exactly the same as consolidated financial statements. It is the term of choice in many countries, especially in Europe. American firms use the latter term.
3. Current assets are those which are in the form of cash, are expected to be converted into cash, or consumed within one year or one operating cycle, whichever is longer. Noncurrent assets are simply those assets that don't meet the criteria for current.
4. Usually true, but it could be false in companies with long operating cycles such as wine growing, defense contracting, and construction.
5. In order of liquidity; either descending, as in the U.S. or Japan, or ascending, as is usually found in Europe.
6. These are expenditures, usually for rent and insurance, and haven't been consumed yet. Because they represent future benefits to the firm (the right to use the rented property or the right to insurance coverage), they are considered assets. These assets are examples of current assets that get used up instead of converted into cash.
7. The default option is acquisition or historical cost. It continues to be the dominant valuation basis, even for IFRS companies (which can use fair value is they so choose).
8. Share capital (the sum of par value and capital in excess of par) represents sum invested *directly* by the firm's shareholders when the shares were issued. Retained earnings represented all of the profits earned by the company but not paid out as dividends. The implication is that the profits have been reinvested in the firm, *indirectly*, on behalf of shareholders.
9. Here, "net" means product returns and discounts.
10. To reconcile the taxes recognized under tax law with those recognized under GAAP or IFRS. Without the matching principle, there would be no reason to recognize deferred taxes. Income tax expense in any give year would simply equal what is owed for that year.
11. Expensing an item is to recognize it as an expense on the current period's income statement. Capitalizing an item is to recognize it as an asset, perhaps to reach the income statement in the future through depreciation, amortization, or depletion.
12. Comprehensive income is the change in a company's net assets from non-owner sources during the year. It is a statement of all income and expenses recognized during that period, including those that temporarily bypass the income statement. The concept came into existence to make such gains and losses more transparent, and to restore the "clean surplus" relationship to the financial statements.

Problem 2.1

a.

PetroLim
Income Statement
For the Year Ended 31 December 2018

In thousands of Ringgits

Revenues:	
Net Operating Revenues	1,670,074
Interest and Other Revenues	6,196
Total Revenues	1,676,270
Less Expenses:	
Cost of Sales	974,224
Selling Expenses	82,690
General and Administrative Expenses	98,648
Other Operating Expenses	129,320
Interest Expense	5,738
Income Taxes	98,662
Total Expenses	1,389,282
Net Income	286,988

b. Note: This statement is prepared in a format similar to what you would expect to see for most IFRS-compliant companies, including those in Malaysia.

PetroLim
Statements of Financial Position

In thousands of Ringgits

	31 Dec 2018	**31 Dec 2017**
Assets		
Noncurrent Assets:		
Intangible Assets	40,044	32,254
Oil and Gas Properties	652,656	540,992
Property, Plant and Equipment—Net	495,606	463,180
Other Noncurrent Assets	327,422	264,428
Total Noncurrent Assets	1,515,728	1,300,854
Current Assets:		
Inventories	176,934	152,076
Other Current Assets	40,734	26,914
Advances to Suppliers	40,772	25,328
Accounts Receivable	36,838	16,976
Cash	177,178	108,140

Total Current Assets	472,456	329,434
Total Assets	1,988,184	1,630,288
Liabilities and Shareholders' Equity		
Noncurrent Liabilities:		
Long-Term Debt	70,610	60,802
Other Noncurrent Liabilities	84,124	73,366
Total Noncurrent Liabilities	154,734	134,168
Current Liabilities:		
Advances from Customers	24,866	23,180
Other Current Liabilities	169,522	181,878
Accounts Payable	208,920	155,872
Total Current Liabilities	403,308	360,930
Shareholders' Equity:		
Common Stock	889,054	708,680
Retained Earnings	541,088	426,510
Total Shareholders' Equity	1,430,142	1,135,190
Total Liabilities and Shareholders' Equity	1,988,184	1.630,288

Case 2.1

JanMar Fabrics

Cash (Dr)	Cash (Cr)	A/R (Dr)	A/R (Cr)	Inventory (Dr)	Inventory (Cr)	Prep. Ins. (Dr)	Prep. Ins. (Cr)
221000	58750 (3)	136250	170750 (5)	340750		2000	250 (8)
(5) 170750	103000 (4)	(1) 425000		(2) 231500	182500 (12)		
	194750 (6)						
	16000 (7)						
19250		**390500**		**389750**		**1750**	

Equipment (Dr)	Equipment (Cr)	AD (Dr)	AD (Cr)	A/P (Dr)	A/P (Cr)	N/P (Dr)	N/P (Cr)
1050000			420000	194750 (6)	165500		25000
			8750 (9)		231500 (2)		
			428750		**202250**		

Sal. Payable	
(4) 6250	6250
	8000 (10)
	8000

CS	
	750000

Ret. Earn.	
	383250

Interest Payable	
	250 (11)

Revenues	
	425000 (1)

Rent Exp.	
58750 (9)	

Salaries Exp.	
(4) 96750	
(10) 8000	
104750	

Other Expenses	
(7) 16000	

Insurance Exp.	
(8) 250	

Depr. Exp.	
(9) 8750	

Interest Exp.	
(11) 250	

COGS	
(12) 182500	

JanMar Fabrics
Pre-Closing Trial Balance

	DR	**CR**
Cash	19250	
A/R	390500	
Inventory	389750	
Prep. Ins.	1750	
Equipment	1050000	
Accum. Depr.		428750
A/P		202250
N/P		25000
I/P		250
Salaries Pay		8000
Common Stock		750000
Retained Earnings		383250

Sales		425000
COGS	182500	
Rent Expense	58750	
Salaries Exp.	104750	
Misc. Exp.	16000	
Insurance Exp.	250	
Depreciation Exp.	8750	
Interest Expense	250	
	2222500	2222500

JanMar Fabrics
Income Statement
For July 2012

Sales		$425,000
COGS		182,500
Gross Profit		242,500
Rent Expense	$ 58,750	
Salaries Expense	104,750	
Misc. Expense	16,000	
Insurance Expense	250	
Depreciation Expense	8,750	
Interest Expense	250	188,750
Net Income		**$ 53,750**

Balance Sheet
31 July 2012

Cash	$	19,250	A/P	$	202,250
A/R		390,500	N/P		25,000
Inventory		389,750	I/P		250
Prep. Ins.		1,750	Salaries Pay		8,000
Equipment		1,050,000	Common Stock		750,000
Accum. Depr.		(428,750)	Ret. Earnings		437,000
Total Assets	$	1,422,500	Liab + SE	$	1,422,500