RE-SIT PERIOD EXAM – FINANCIAL ACCOUNTING II

PART A *(8 + 2 Points)*

Duration: 2h00 January 8h, 2025

Name: ____

Number: ____________ **Degree:** ______________________ **Class:** ____________

Instructions

- This exam is composed of two parts (**PART A** and **PART B**) that will be handled to you separately. Make sure you receive and deliver both parts.
- This is a closed book exam.
- You may consult only the Chart of Accounts that will be handed over to you.
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Good Luck!

GRADE	
PART A – 1	
PART A – 2	

PART A 1 *(8 Points)*

A. Circle the answer that is correct / more complete.

(4.0 points)

1. Which of the following is false regarding inventories:

a) Materials and other supplies are only written up when the finished goods in which they will be incorporated are expected to be sold below cost

b) Materials and other supplies are always written down when their net realizable value is below cost

c) Materials and other supplies are never written down

d) All of the above

2. Which of the following sentences is true about own shares:

a) The firm cannot buy own shares below par value

b) The Own Shares (NV) account appears with a debit balance in the trial balance

c) The Own Shares (NV) can be used to cover accumulated losses

d) None of the above

3. Firm ABC Ltd. repurchased, for the first time, 10,000 own shares in N-1. The partial composition of Shareholders' Equity at the end of N-1 was as follows (in euros):

	31/12-N-1
Share Capital	1,000,000
Own Shares (NV)	(100,000)
Own Shares (P/D)	10,000
Reserves	500,000

Which of the following sentences is true?

a) The nominal value of each share is 9 euros and the price paid for each own share is 10 euros

b) The nominal value of each share is 50 euros and the price paid for each own share is 10 euros

c) The nominal value of each share is 10€ and the price paid for each own share is 50 euros

d) The nominal value of each share is 10€ and the price paid for each own share is 9 euros

4. Consider the following information taken from a company's balance sheet (in euros):

	N	N-1
Trade Accounts Receivable	200,000	420,000
Trade Accounts Payable	600,000	900,000
Inventories	100,000	450,000
Net Sales	1,000,000	800,000
Cost of Goods Sold	4,100,000	3,900,000
Deferrals - Pre-received revenues	10,000	0

Indicate the amount to be presented on the Cash Flow Statement of N under the heading "Receipts from Customers" (ignore VAT):

a) 1,080,000 euros

b) 1,510,000 euros

c) 1,230,000 euros

d) 1,220,000 euros

B. On June 1st of N, firm ABC, S.A. will increase its capital by 75 million euros (nominal value). Just before the operation, Shareholders' Equity was as follows:

(4.0 points – 1.0 per question)

Shareholders' Equity:	in thousands of euros
Share Capital	300,000
Share Premium	20,000
Reserves	40,000
Retained Earnings	35,000
Total Shareholders' Equity	345,000

Knowing that:

- Share capital, after the capital increase, will be represented by 50 million shares outstanding;
- Before the capital increase, the market value of all of the shares outstanding is 360 million euros;
- In the capital increase, the new shares will be issued at market price;
- The payment of the new shares subscribed will be made 5 days after the issue date.

1. Determine the number of new shares to be issued (show the calculations):

Nominal Value per share = 375,000,000/50,000,000 = 7.5 € [0.5]

New shares issued = 75,000,000/7.5 = 10,000,000 shares [0.5]

2. Determine the total amount of cash inflow for the company with this operation (show the calculations):

Issue price = 360,000,000/40,000,000 = 9 € [0.5]

Cash inflow = 10,000,000 shares x 9 € = 90,000,000 € [0.5]

3.Determine the premium or discount amount of the capital increase (show the calculations):

Premium per share = 9 – 7.5 = 1.5 € [0.5]

Total premium = 10,000,000 shares x 1.5 € = 15,000,000 € [0.5]

4.Record in the journal the relevant accounting entries regarding the capital increase:

Calculations:

	Debit	Credit
Capital subscription:		
51 – Share Capital		75,000,000
54 – Share Premium		15,000,000
261 – Shareholders w/ subscription	90,000,000	
Subscription settlement:		
261 – Shareholders w/ subscription		90,000,000
12 – Bank Deposits	90,000,000	

PART A 2 *(2 Points)*

A. Considering the International Financial Reporting Standards (IFRS), circle the answer that is correct / more complete:
(2.0 points)

1.KIDSPLAY, SA is a company that produces toys. In year N, a client filed a lawsuit against the company due to delays in the delivery of toys and asked for a compensation of 50,000 euros. The company's lawyers consider that the probability of losing the lawsuit is 40%. Based on the above information, in year N, the company should:

a) Recognize an asset in the Statement of Financial Position in the amount of 30,000 euros.
b) Recognize a liability in the Statement of Financial Position in the amount of 20,000 euros.
c) Recognize a liability in the Statement of Financial Position in the amount of 50,000 euros.
d) Disclose a contingent liability.

2. Firm SUSTAINBLE FUELS buys and sells gasoline. The firm purchased a million litres of gasoline in one lot in year N-1. The price per litre was 1,05 euros and transportation costs 2.000 euros. The net realizable value at 31/12/N-1 was 0,95 euros per litre. At the beginning of year N, the firm purchased another million litres of gasoline in one lot. The price per litre was 0,85 and transportation costs 1.500 euros. In year N, the firm sold 1,5 million litres of gasoline to a client for 1 euro a litre. The net realizable value in 31/12/N was 1,10 euros. The firm uses FIFO criteria. By the end of years N-1 and N the value of inventories was:

a) 1.052.000 euros by the end of year N-1 and 425.500 euros by the end of year N.
b) 950.000 euros by the end of year N-1 and 425.750 euros by the end of year N.
c) 950.000 euros by the end of year N-1 and 550.000 euros by the end of year N.
d) 1.052.000 euros by the end of year N-1 and 550.000 euros by the end of year N.

3.According to IAS 38 (Intangible Assets), which may be recognized as an intangible asset in a company's separate financial statements?:

a) Research costs related to a new product.
b) An acquired brand.
c) An internally generated customer list.
d) The potential receipt of a compensation in a lawsuit.

4. AB Company sells products with a one-year warranty that covers repair costs. Small repairs cost €20 per unit; major repairs €50 per unit. Small and large repairs are equally likely to take place. It is estimated that around 10% of the 2 million units sold will need repairs. The company must recognize:

a) A liability and an expense of 7 million euros.
b) An asset and an expense of 7 million euros.
c) A contingent liability of 7 million euros.
d) None of the above.

DRAFT SHEET

RE-SIT PERIOD EXAM – FINANCIAL ACCOUNTING II

PART B *(6 + 4 Points)*

Duration: 2h00 January 8h, 2025

Name: ____

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GRADE	
PART B - 2	
PART B - 3	

PART B 2 *(6 Points)*

A. Consider the following information regarding the tangible assets of company "CAETANO & FAMILY, SA" on 31/12/N (in euros):
(5 points)

Tangible Assets	Gross Value	Accumulated depreciation	Accumulated impairment losses	Fair value – cost of selling	Fair value	Value in use
Land	500,000	0	0	450,000	480,000	400,000
Buildings	800,000	200,000	0	860,000	900,000	1,000,000
Transport Equipment	220,000	60,000	0	90,000		100,000
Basic Equipment	1,100,000	350,000	0	1,110,000	1,150,000	1,500,000
Administ. Equipment	180,000	32,000	6,400	175,000		170,000

Additional information:

- The above data already include the depreciation of year N, but does not consider the treatment of the impairment regarding the period ending on 31/12/N.
- The company adopts the cost model for every item, except for land and buildings, for which the revaluation model is adopted.
- There are revaluations surpluses outstanding of 40,000 euros for land and 200,000 euros for buildings.

a) Fill-in the following table:

	Land	Buildings	Transport Equipment	Basic Equipment	Administ. Equipment
Carrying amount	500,000	600,000	160,000	750,000	141,600
Recoverable amount	450,000	1,000,000	100,000	1,500,000	170,000
Impairment? (Y/N)	Yes	No	Yes	No	No
Increase of impairment in year N	10,000				
Reversal of impairment in year N					6,400
Accumulated impairment in 31/12/N	50,000				
Revaluation in year N		300,000			

Calculations:

[19*0,2=3,8 points]

b) Record in the journal of the necessary accounting entries.

	Debit	Credit
Adjustment in Land		
Rev. Surplus	40,000	
Impairment losses	10,000	
TA – Acc. impairment losses		50,000
Reversal of impairment in Admin. Equipment		
TA – Acc. impairment losses	6,400	
Reversals – Impairment losses in TA		6,400
Revaluation of Building		
TA	300,000	
Rev. Surplus		300,000
[3 x 0.4] = 1.2 points		

B. Consider the following information concerning company "CAETANO & PUREZA, SA" and merchandise M, on 31/12/N:
(1 point)

- Batch 1: Total cost of acquisition: 120,000 euros (750 units).
- Batch 2: Total cost of acquisition: 204,000 euros (850 units).
- Sale price per unit on 31/12/N: 320 euros.
- Estimated cost to sell the merchandise: 85 euros.
- Costing method: weighted average cost.

a) Fill-in the following table:

1.	Net Realizable Value at 31/12/N	235
2.	Total value of merchandise M on the balance sheet at 31/12/N	319,750

Calculations:

Batch 1 → Cost per unit = 120,000 / 750 = 160

Batch 2 → Cost per unit = 204,000 / 850 = 240

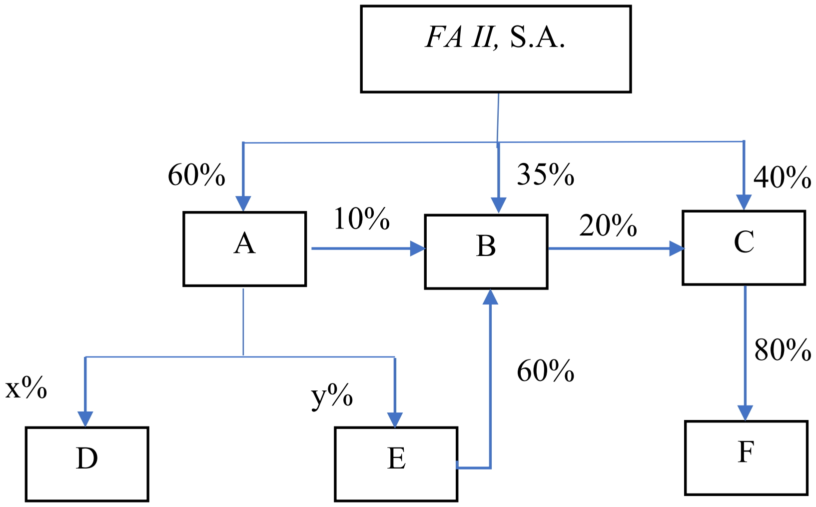
NRV = 320 - 85 = 235

Total value of merchandise M on the balance sheet at 31/12/N = 750 units x 160 + 850 units x 235 = 120,000 + 199,750 = 319,750 euros

[2 x 0.5] = 0.1 points

PART B 3 *(4 Points)*

A. Company *"FA2, S.A."* is the parent-company of a group of companies. On 31/12/N, the group's financial interests are indicated in the figure below. *(2.5 points)*



Indicate the percentage of interest, the percentage of control, and the consolidation method the parent company should apply to each of the companies. Fill-in the table and present the calculations:

Company	Percentage of Interest	Percentage of Control	Consolidation Method
A	60%	60%	Full
B	42.8%	45%	Equity
C	48.56%	40%	Equity
D	42%	70%	Full
E	3%	5%	FV
F	38.848%	0%	FV

Calculations and justification of consolidation method:

[10 x 0.2] for correct percentage of interest and percentage of control
0.5 for correct choice of consolidation method and justification

B. The shareholders of companies ONE and TWO agreed to merge the two companies. Company TWO will be incorporated into company ONE. Company ONE will increase its capital by issuing new shares to be delivered to shareholders of company TWO. The following information is available (in euros): *(1 point)*

	ONE	TWO
Share Capital	500,000	200,000
Shareholders' Equity	1,700,000	800,000
Nominal value per share	1.25	0.5

Company TWO owns a building that has a fair value of 50,000 euros higher than the amount reported in the company's financial statements.

1. **Compute the book value per share of each company and determine the rate of exchange of shares** (present the calculations).

   Company ONE → Number of shares = 500,000 € / 1.25 € = 400,000 shares
   Company ONE → FV per share = 1,700,000 € / 400,000 shares = 4.25 euros per share

   Company TWO → Number of shares = 200,000 € / 0.5 € = 400,000 shares
   Company TWO → FV per share = 850,000 € / 400,000 shares = 2.125 euros per share

   Rate of Exchange = FV per share of TWO / FV per share of ONE = 2.125 € / 4.25 € = 0.5

   Number of shares of ONE to be issued = 400,000 x 0.5 = 200,000 shares of ONE

   [4 x 0.2] = 0,8

2. **Considering the available information, determine the amount of the capital increase** (present the calculations).

   Capital increase = 1.25 (par value shares) × 200,000 (new shares issued by ONE) = 250,000 euros
   [0.1]

3. **Considering the available information, determine the merger premium** (present the calculations).

   Merger Premium = Net assets of Firm TWO at fair value (850,000) minus Capital increase (250,000)
   = 600,000 euros
   [0.1]

C. At the beginning of year N, company "ABC" acquired 45% of the capital of company "XYZ" for 800,000 euros. During the year, company "XYZ" generated a net income of 60,000 euros, distributed dividends in the amount of 30,000 euros and recognized a revaluation surplus of 25,000 euros.

Indicate the amount of "Financial Investment" to report on the Balance Sheet of company "ABC" at 31/12/N, using the Equity Method: *(0.5 points)*

Financial investment = 800,000 + 0.45% x (60,000 – 30,000 + 25.000)

[4 x 0.125] (correct sign and amount) = 0.5

DRAFT SHEET