Power BI Questions (Intermediate Financial Reporting 1)

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POWER BI QUESTIONS (INTERMEDIATE FINANCIAL REPORTING 1)

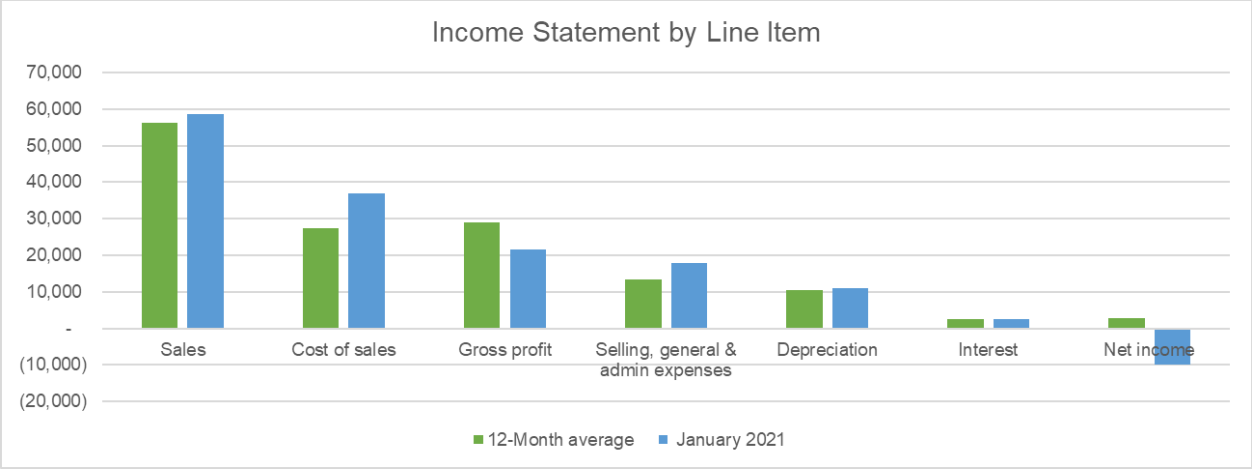
Question 1

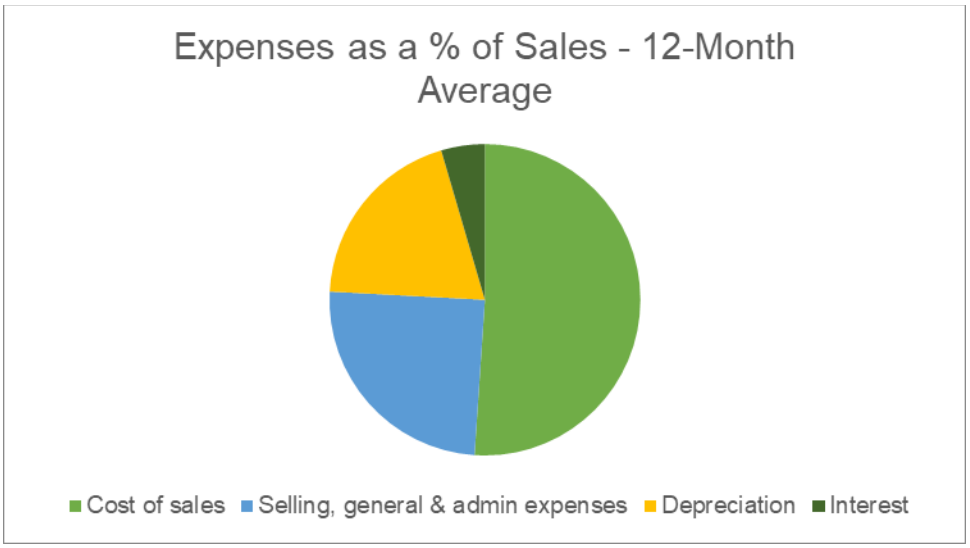
LensCo is a privately owned chain of eyewear stores offering a range of services to its customers, including eye exams by licensed optometrists and high-end eye glasses and sunglasses. In an effort to further expand its range of eyewear, LensCo acquired 100% of the shares of Solar Film Inc. (SFI) on January 1, 2021. SFI produces a brand of sunglasses that protects the eyes from sun damage.

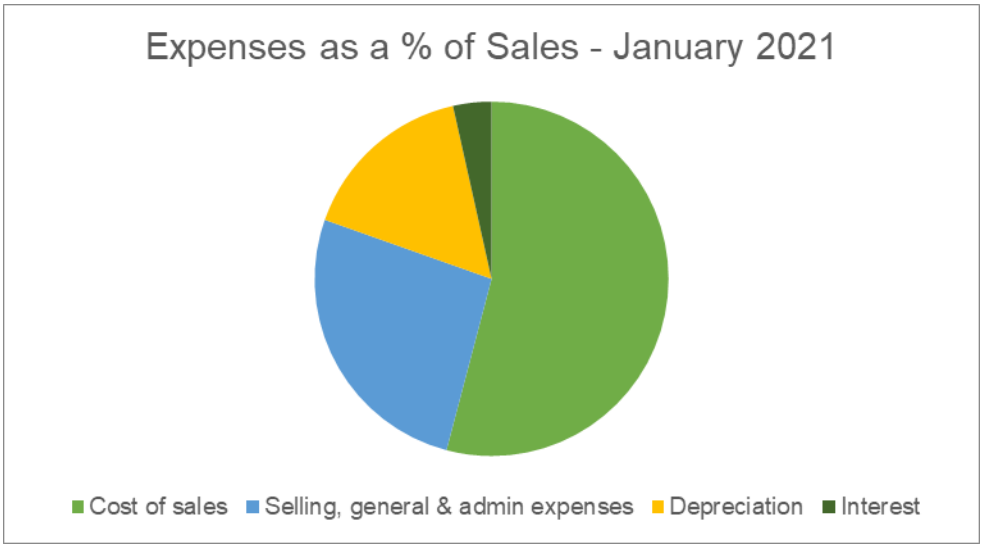
You, CPA, are a senior financial analyst at LensCo, and the controller, Jing Lo, has asked for your help dealing with a few issues she has noted since the acquisition. Jing is concerned with the monthly internal reporting prepared by SFI. Jing had asked her staff Raj to prepare a summary of SFI's financial results in its first month following the acquisition. She was provided with a page filled with several colourful visualizations from Power BI. To save time, Jing has asked that you help her interpret the meaning of these images.

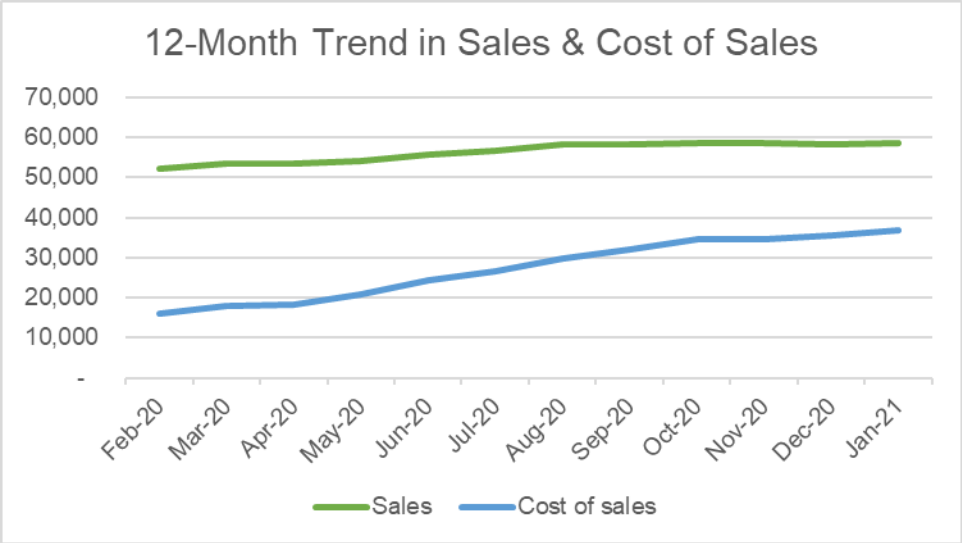
Required

Interpret the financial results of SFI provided below identifying any areas of concern that should be brought to Jing's attention.




Expenses as a % of Sales - 12-Month Average
Cost of sales
Selling, general & admin expenses
Depreciation
Interest


Expenses as a % of Sales - January 2021
Cost of sales
Selling, general & admin expenses
Depreciation
Interest


12-Month Trend in Sales & Cost of Sales
70,000
60,000
50,000
40,000
30,000
20,000
10,000
-
Feb-20
Mar-20
Apr-20
May-20
Jun-20
Jul-20
Aug-20
Sep-20
Oct-20
Nov-20
Dec-20
Jan-21
Sales
Cost of sales

Question 2

It is now February 15, 2021. LensCo and SFI are still in the process of integrating their financial reporting systems. While LensCo has established financial reporting processes and systems controls in place, Jing is skeptical about the manual processes in place at SFI. Both LensCo and SFI apply accounting standards for private enterprises (ASPE).

At your meeting you are provided with an excerpt from SFI's fixed asset register (the "QUESTION2.DATA" file). Prior to the LensCo acquiring SFI's shares, SFI had a December 31 year-end.

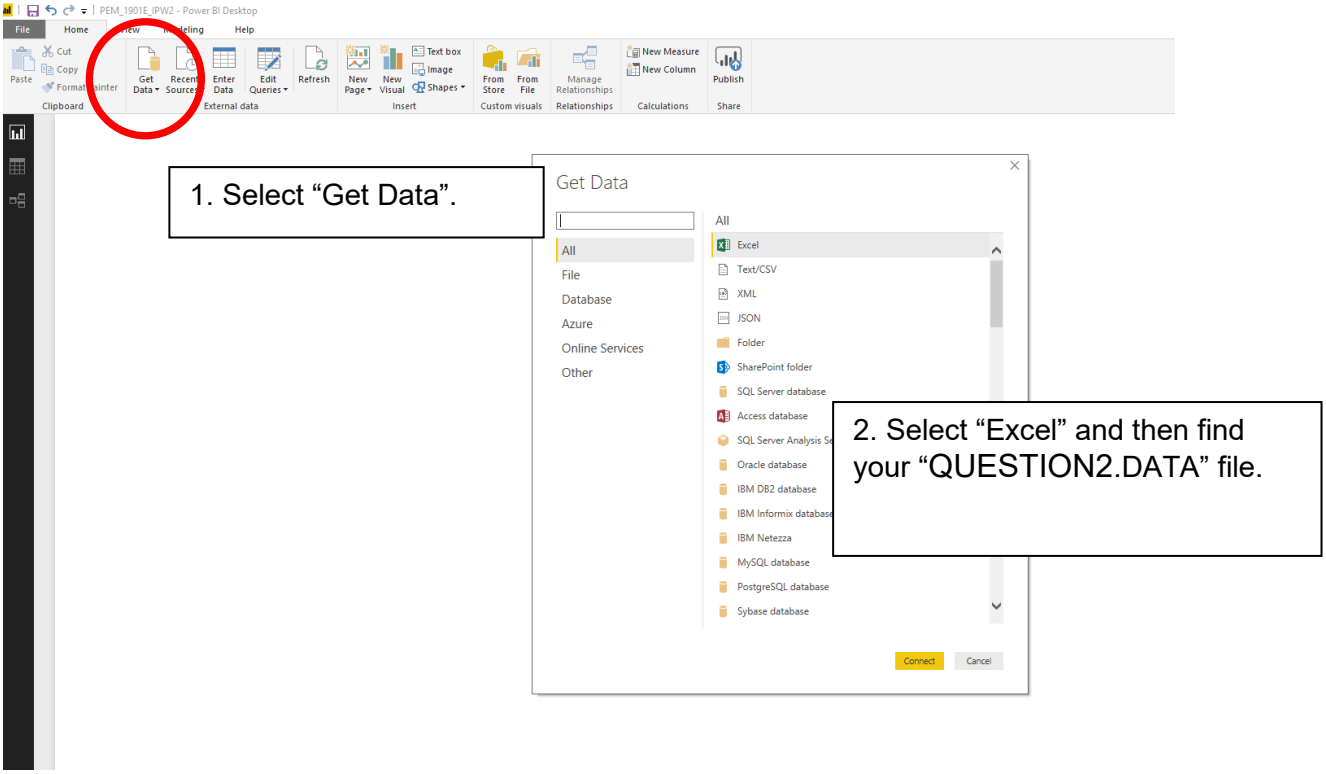
Required

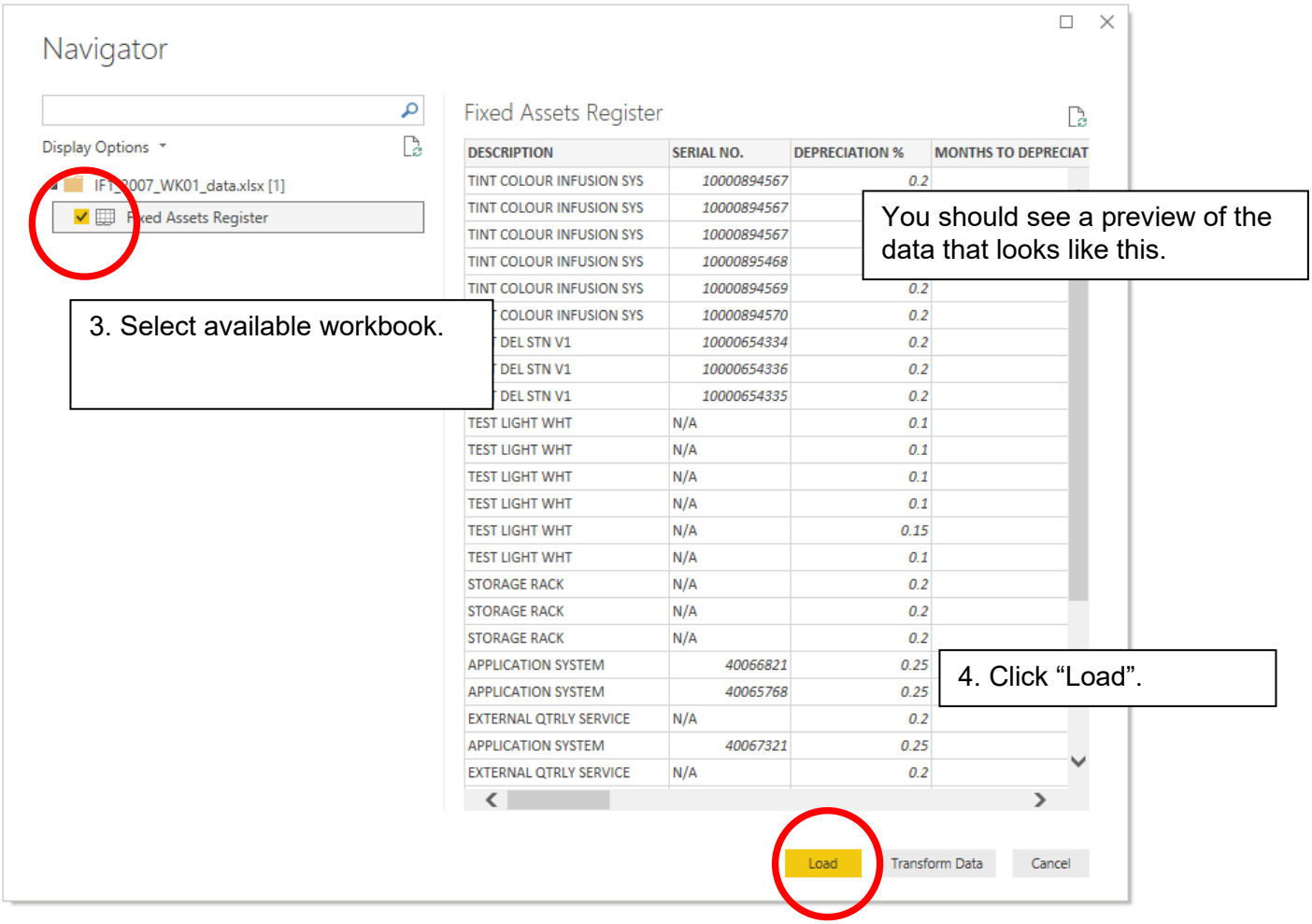
Assuming the service provider fees should not be capitalized, provide Jing with the required adjusting journal entry, and provide your supporting analysis. Filter the data in a table using Power BI.

Power BI instructions

Review the data in the “QUESTION2.DATA” file before importing.

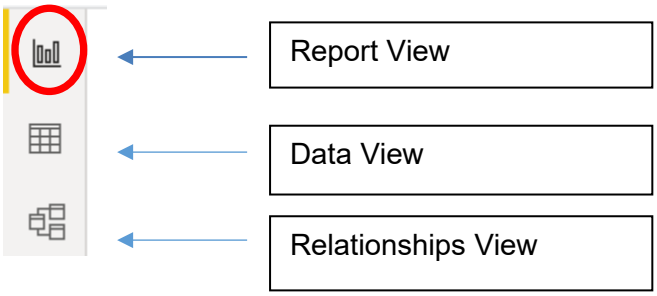
Open Power BI and import the “QUESTION2.DATA” file using the “Get Data” function. Use the screenshots below to guide you through the steps.



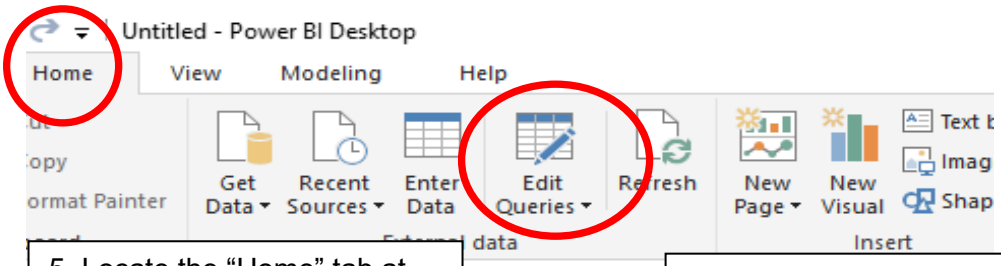


DESCRIPTION	SERIAL NO.	DEPRECIATION %	MONTHS TO DEPRECIAT
TINT COLOUR INFUSION SYS	10000894567	0.2	
TINT COLOUR INFUSION SYS	10000894567		
TINT COLOUR INFUSION SYS	10000894567		
TINT COLOUR INFUSION SYS	10000895468		
TINT COLOUR INFUSION SYS	10000894569	0.2	
COLOUR INFUSION SYS	10000894570	0.2	
DEL STN V1	10000654334	0.2	
DEL STN V1	10000654336	0.2	
DEL STN V1	10000654335	0.2	
TEST LIGHT WHT	N/A	0.1	
TEST LIGHT WHT	N/A	0.1	
TEST LIGHT WHT	N/A	0.1	
TEST LIGHT WHT	N/A	0.1	
TEST LIGHT WHT	N/A	0.15	
TEST LIGHT WHT	N/A	0.1	
STORAGE RACK	N/A	0.2	
STORAGE RACK	N/A	0.2	
STORAGE RACK	N/A	0.2	
APPLICATION SYSTEM	40066821	0.25	
APPLICATION SYSTEM	40065768	0.25	
EXTERNAL QTRLY SERVICE	N/A	0.2	
APPLICATION SYSTEM	40067321	0.25	
EXTERNAL QTRLY SERVICE	N/A	0.2	

When the file has been successfully imported, Power BI will open to the “Report” screen. You will know that you are in the Visualization Environment by looking to the left-hand side of your screen.



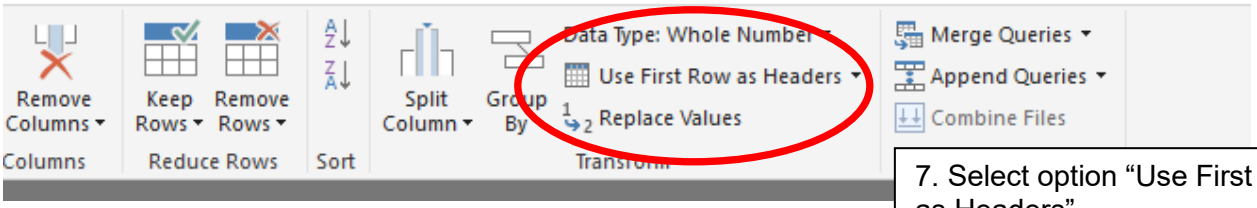
Next, ensure that Power BI recognizes the top row as a header by selecting the “Data View”. If the top row is not recognized as the header, select “Edit Queries” under the “Home” tab:



5. Locate the “Home” tab at the top of your screen.

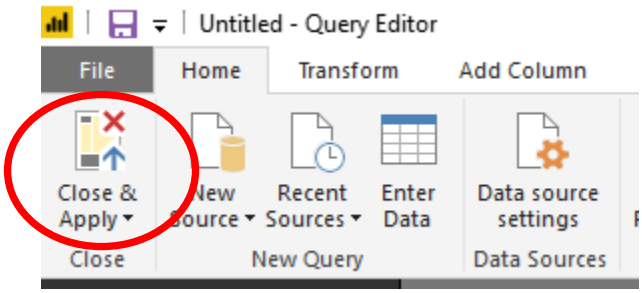
6. Click on the “Edit Queries” menu to reveal a new menu.

The “Edit Queries” menu will look like this:



7. Select option “Use First Row as Headers”.

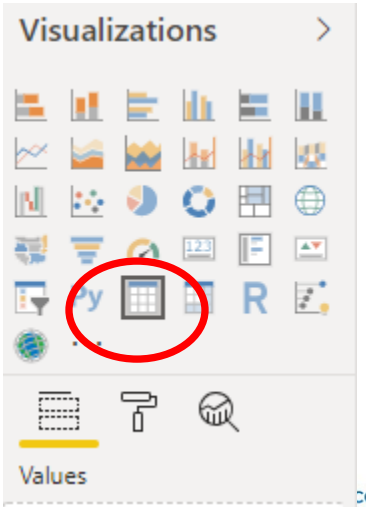
Then click “Close & Apply”. It will return your original screen.



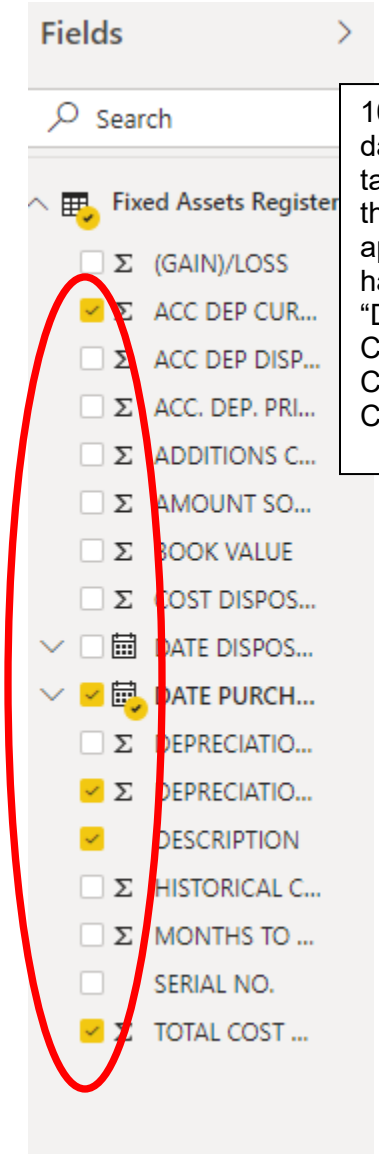
8. Be sure to select “Close & Apply”. This will ensure your changes are applied immediately and will return you to your original screen.

Set up the table.

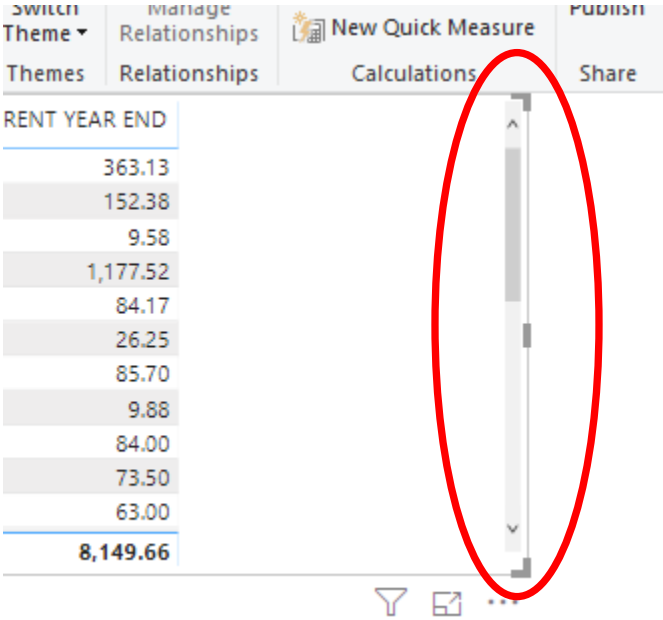
9. On the right hand side, select the visualization for a table.



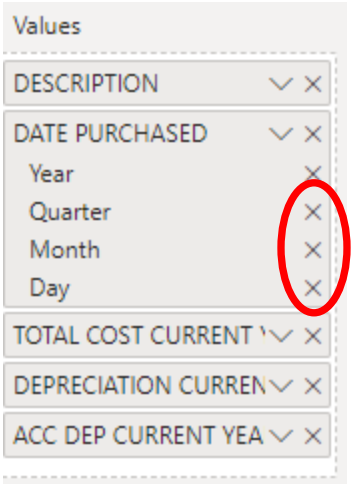
Chose the data for the table you want to analyze by selecting the fields.



10. Under “Fields”, select the data you want to analyze in this table. Note, The order you select the data is the order they will appear in the table on the left hand side. Select “Description”, “Date Purchased”, “Total Cost Current Year End”, “Depreciation Current Year” and “Acc Dep Current Year End”.

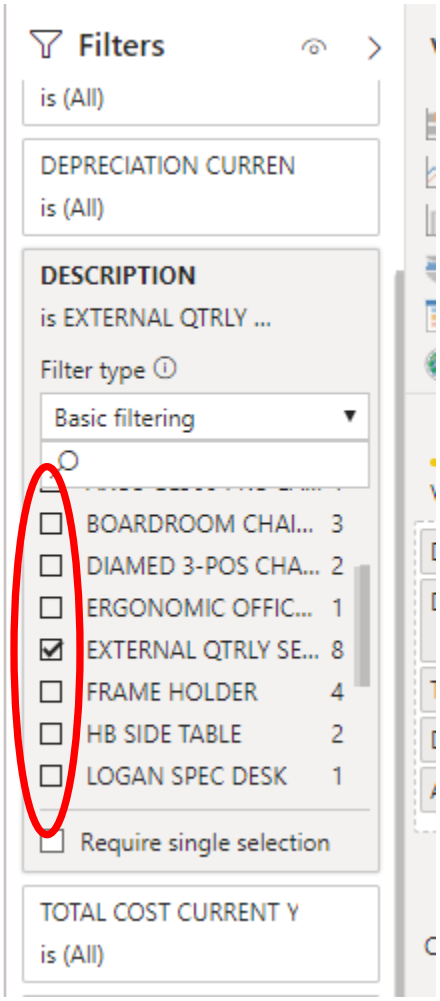


11. Expand the size of the table by clicking dragging the side in order to see all the data.



12. After selecting Fields, change the value of the “Date Purchased” field to “Year” only by deselecting “Quarter”, “Month” and “Day”.

Review the data in the table for service fees and filter the data in the table.



13. Under Filters, select “External Qrtly Service”

Solutions

Solution to Question 1

SFI financial results — January 2021

Income statement by line item

This chart shows the current month's results relative to the average monthly results over the past 12 months. Sales were slightly higher than average during the current month compared to the monthly average. However, it appears that the January cost of sales and selling, general, and administrative expenses were higher than the monthly average. These increases in expenses were sufficiently high to offset the small increase in sales relative to the average. As a result of the higher cost of sales and selling, general, and administrative expenses, net income was negative for the month of January 2021, despite being positive on average.

Expenses as a percentage of sales

The pie charts further emphasize the increase in cost of sales and selling, general, and administrative costs, this time showing these costs as a percentage of total sales. It is evident that the cost of sales and selling, general, and administrative expenses make up a higher proportion of expenses as a percentage of sales. Depreciation and interest expense, which appear flat in the first chart, now make up a smaller proportion of expenses as a percentage of sales, relatively speaking. This further indicates that there may have been an issue with cost of sales and selling, general, and administrative expenses.

12-month trend in sales and cost of sales

This chart shows the trend in sales and cost of sales over the last 12 months, giving us a more detailed breakdown of what makes up the average as shown in the previous charts. This chart shows a slight increase in sales over the last 12 months, while cost of sales have trended upward at a more significant rate. As a result, cost of sales have been approaching sales in terms of dollar value, narrowing the gross profit margin. This is concerning because it indicates that the current month's results may be indicative of a trend and not the result of one month's poor performance.

Recommendation

Further investigation and additional information is required to determine the reason for the upward trend in cost of sales. It is recommended that this be investigated as a matter of priority, as it has already resulted in negative net income in the month of January and appears to be indicative of a larger trend with the potential to have long-term negative effects on profitability.

Solution to Question 2

DESCRIPTION	Year	TOTAL COST CURRENT YEAR END	DEPRECIATION CURRENT YEAR	ACC DEP CURRENT YEAR END
EXTERNAL QTRLY SERVICE	2019	1,050.00	194.25	273.00
EXTERNAL QTRLY SERVICE	2020	1,050.00	78.75	78.75
Total		**2,100.00**	**273.00**	**351.75**

Financial statement impact of capitalized quarterly service fees

The impact of capitalizing the quarterly service fees has been calculated in Power BI by filtering the data provided in the Power BI file for all items with the description “EXTERNAL QTRLY SERVICE FEE.”

After considering the offsetting impact of depreciation taken on the capitalized fees, the error resulted in an understatement of expenses, which caused net income to be overstated in 2019 by $971.25. In 2020, expenses were understated, which caused net income to be overstated by $777.00 ($1,050 - $273).

Recommendation

An adjusting journal entry should be made to expense the quarterly service fees and remove them from property, plant, and equipment.

The following adjusting journal entry is required to be made to SFI’s 2020 financial statements:

Dr. Accumulated depreciation	351.75		
Dr. Repairs and maintenance expense	1,050.00		
Dr. Retained earnings	971.25		
Cr. Property, plant, and equipment		2,100.00	
Cr. Depreciation expense			273.00

Note that since SFI was acquired by our company on January 1, 2021, there will be no impact to the 2020 LensCo’s financial statements.