

THE HONG KONG POLYTECHNIC UNIVERSITY  
HONG KONG COMMUNITY COLLEGE

**Subject Title** : Financial Accounting

**Subject Code** : CCN2101

**Session** : Semester One, 2017/18

**Numerical Answers**

**Question B1**

(a)		Dr (\$)	Cr (\$)
(1)	Supplies expense (110,500-98,000)	12,500	
	Supplies		12,500
(2)	Rent expense (72,000/9)	8,000	
	Prepaid rent		8,000
(3)	Salaries expense	15,500	
	Salary Payable		15,500
(4)	Unearned service fees	23,000	
	Service fees revenue		23,000
(5)	Cash	37,500	
	Treasury shares		31,250
	Share Premium (37,500-31,250)		6,250
(6)	Dividends (75,000*\$0.2)	15,000	
	Dividends payable		15,000

(b)  $\$8,000 - \$(84,000 - 24,000) / 8 = \$500$

(c) Sky Fly Limited  
Extract of the Statement of Financial Position  
As At 31 December 2016

Shareholder's Equity	\$
Ordinary share, \$2 par, 100,000 authorized, <b>75,000 shares issued and outstanding</b>	150,000
Share premium: Treasury shares (\$37,500-\$31,250)	6,250
Retained earnings \$(159,700+190,400-12,500-8,000-15,500+23,000-15,000)	322,100
<b>Total shareholders' equity</b>	<b>478,350</b>

**Question B2**

Super Beauty Company		
Statement of Cash Flows		
For the Year Ended 31 December 2016		
Cash flows from operating activities		
Profit		\$370,050
Add: Depreciation expense	\$ 36,000	
Amortization of copyright	13,000	
Decrease in prepaid expenses	28,000	
Increase in accounts payable	25,000	
Increase in accrued expenses payable	<u>5,500</u>	<u>107,500</u>
		\$477,550
Less: Non-operating gain on sale of equipment	\$ 14,600	
Increase in accounts receivable	135,000	
Increase in inventory	20,000	<u>(169,600)</u>
Net cash from operating activities		307,950
Cash flows from investing activities:		
Purchases of new equipment	(320,000)	
Proceeds from sales of old equipment	<u>285,000</u>	
Net cash used in investing activities:		(35,000)
Cash flows from financing activities:		
Loan from bank	120,000	
Issue of ordinary shares	150,000	
Dividends paid	<u>(90,000)</u>	
Net cash from financing activities		<u>180,000</u>
Net increase (decrease) in cash and cash equivalents		452,950
Cash and cash equivalents, beginning of year		<u>134,500</u>
Cash and cash equivalents, end of year		<u>\$ 587,450</u>

**Question C1**Part I

		Dr	Cr
2	Inventory	800	
	Account payable		800
3	Account payable	80	
	Inventory		80
16	Account payable	720	
	Cash		720
19	Account receivable	2,000	
	Sales revenue		2,000
	Cost of goods sold	720	
	Inventory		720

Part II

(a) COGS:  $\$10k + 25k - 8k = \$27,000$

GP:  $\$49,750 - \$1,250 - \$27,000 = \$21,500$

**Question C2**

Part I

(a)

KOL Limited Bank reconciliation 31 March 2017			
	\$		\$
Cash account balance	9,375	Bank statement balance	9,780
<b>Additions:</b>		<b>Additions:</b>	
Book error (2,168 – 1,268)	900	Deposits in transit	130
<b>Deductions:</b>		<b>Deductions:</b>	
Service charge	(156)	Bank error (359 – 395)	(36)
NSF check	(450)	Outstanding checks (2,745 – 2,540)	(205)
Correct cash balance	<u>9,669</u>	Correct cash balance	<u>9,669</u>

(b) Adjusting journal entries:

Bank charge .....156  
 Accounts receivable.....450  
 Cash.....294  
     Equipment .....900  
     (or two separate entries of Dr. cash \$900 and Cr. Cash \$606)

Part II

(a) Impairment loss of receivable (167,500 x 70% x 2%)...2,345  
     Allowance for impairment.....2,345

(b) Allowance for impairment .....3,265  
     Accounts receivable (J. Homes) .....3,265

### Question C3

#### Part I

(a)	<u>2015</u>	<u>2016</u>
Straight-line		
<b>Year 1:</b> [(\$4.8m - \$0.8m) x 1/10 x 6/12]	<u>\$200,000</u>	
<b>Year 2:</b> (\$4.8m - \$0.8m) x 1/10		<u>\$400,000</u>
200%-declining-balance		
<b>Year 1:</b> (\$4.8m x 20% x 1/2)	<u>\$480,000</u>	
<b>Year 2:</b> [(\$4.8m - \$0.48m) x 20%]		<u>\$864,000</u>
Units-of-output		
<b>Year 1:</b> [(\$4.8m - \$0.8m) x 60k/1,000k]	<u>\$240,000</u>	
<b>Year 2:</b> [(\$4.8m - \$0.8m) x 0.15m/1m]		<u>\$600,000</u>

#### Part II

Dr Depreciation expense	\$300,000	
Cr Accumulated depreciation (\$3.2m-0.2m)*1/5*1/2		\$300,000
Dr Cash	\$1m	
Dr Accumulated Depreciation [(\$3.2m-0.2m)*1/5*3]	\$1.8m	
Dr Loss on Disposal	\$0.4m	
Cr Machinery		\$3.2m

### Question C4

- (a)(i) Times interest earned  
= \$150m ÷ \$30m = 5
- (a)(ii) Quick ratio  
= \$(125+190)m ÷ \$(82+38)m = 2.63
- (a)(iii) Account receivable turnover  
= \$560m(80%) ÷ (\$190m + \$140m) / 2 = 2.72
- (a)(iv) Price-earnings ratio  
= 16 ÷ 0.82 = 19.51
- (a)(v) Return on assets  
= \$150m ÷ \$(765+692)m / 2 = 20.59%
- (a)(vi) Net profit rate  
= \$82m ÷ \$560m = 14.64%
- (a)(vii) Dividend yield  
= (\$56m / 100m) ÷ \$16 = 3.5%