

THE HONG KONG POLYTECHNIC UNIVERSITY  
HONG KONG COMMUNITY COLLEGE

**Subject Title** : Financial Accounting

**Subject Code** : CCN2101

**Session** : Semester One, 2018/19

**Numerical Answers**

**Question B1**

(a)		Dr	Cr
(1)	Supplies expense (7,500-5,000)	2,500	
	Supplies		2,500
(2)	Income taxes expense (220,000-187,500)	32,500	
	Income taxes payable		32,500
(3)	Unearned revenue	48,000	
	Sales revenue		48,000
	*Cost of goods sold	31,200	
	*Inventory		31,200
(4)	Depreciation expense – Equipment (1,470,000/7/12)	17,500	
	Accumulated depreciation – Equipment		17,500
(5)	Insurance expense (60,000/6)	10,000	
	Unexpired Insurance		10,000
(6)	Interest expense (200,000 x 6% x 9/12)	9,000	
	Cash (200,000 x 6% x 8/12)		8,000
	Interest payable (200,000 x 6% x 1/12)		1,000
(7)	Inventory (10,000 x 65%)	6,500	
	Cost of goods sold		6,500

\* The cost entry is acceptable if reasonable rate is used. (e.g. assuming the same rate applied as the information given on adjusting item #7)

(b)

Martina Company  
Income Statement (partial)  
For the year ended 31 December 2017

Sales revenue (3,420,000+48,000)	\$3,468,000
Less sales returns	<u>45,000</u>
Net sales	3,423,000
Less cost of goods sold (1,700,000-6,500 +31,200*)	<u>1,724,700</u>
Gross profit	<u>\$1,698,300</u>

\* The cost entry is acceptable if reasonable rate is used. (e.g. assuming the same rate applied as the information given on adjusting item #7)

**Question B2**

Spiderman Company		
Statement of Cash Flows		
For the Year Ended 31 December 2017		
Cash flows from operating activities		
Profit		\$400,000
Add: Depreciation expense	\$ 30,000	
Amortization expense	15,000	
Decrease in Inventory	10,000	
Decrease in prepaid expenses	10,000	
Increase in accounts payable	<u>20,000</u>	<u>85,000</u>
		\$485,000
Less: Non-operating gain on sale of equipment	\$ 12,000	
Increase in accounts receivable	50,000	
Decrease in accrued expense payable	4,000	<u>(66,000)</u>
Net cash from operating activities		419,000
Cash flows from investing activities:		
Purchases of new equipment	(300,000)	
Proceeds from sales of old equipment	<u>150,000</u>	
Net cash used in investing activities:		(150,000)
Cash flows from financing activities:		
Loan from bank	160,000	
Repurchased ordinary shares /Treasury shares	(100,000)	
Dividends paid	<u>(50,000)</u>	
Net cash from financing activities		<u>10,000</u>
Net increase (decrease) in cash and cash equivalents		279,000
Cash and cash equivalents, beginning of year		<u>120,000</u>
Cash and cash equivalents, end of year		<u>\$ 399,000</u>

**Question C1**

(a)		Dr	Cr
(1)	Legal service expense	19,500	
	Ordinary shares (\$5x2,000)		10,000
	Share Premium – ordinary shares		9,500
(2)	Cash (\$108x8000)	864,000	
	Preference shares (\$100x8000)		800,000
	Share Premium – preference shares		64,000
(3)	Dividend – ordinary shares (\$122,000x0.5)	61,000	
	Dividend – preference shares (\$800,000x0.08)	64,000	
	Cash		125,000
(4)	No entry		

(b)	<b>Shareholders' equity:</b>	
	Contributed capital:	
	8% Non-cumulative preference share, \$100 par, 10,000 shares authorized, 8,000 issued	\$800,000
	Ordinary shares, \$5 par, 500,000 shares authorized, 122,000 shares issued	610,000
	Share premium: Preference	64,000
	Share premium: Ordinary	<u>369,500</u>
		1,843,500
	Retained earnings*	<u>1,075,000</u>
	<b>Total shareholders' equity</b>	<b><u>\$2,918,500</u></b>
	<u>*Computation</u>	
	Beginning retained earnings	\$ 750,000
	Add: Profit for 2017	450,000
	Less: Dividends (\$61,000 ordinary + \$64,000 preference)	<u>(125,000)</u>
	Retained earnings, Dec. 31 2017	<u>\$1,075,000</u>

**Question C2**

Part I

iMars Sports Company Bank reconciliation 31 December 2017			
Cash account balance	\$ 20,196	Bank statement balance	\$ 24,849
<b>Additions:</b>		<b>Additions:</b>	
Note receivable and interest (Dan Hull)	3,248	Deposits in transit (3,520– 2,548)	972
<b>Deductions:</b>		<b>Deductions:</b>	
Service charge	(36)	Outstanding checks*	
NSF check (Blue’s Club)	(900)	no. 1221	147
Record error (320-302)	(18)	no. 1232	2,379
		no. 1233	93
		no. 1241	712
	954		3,331
Correct cash balance	<u>22,490</u>	Correct cash balance	<u>22,490</u>

\* can show separately or in a lump sum

(b) Adjusting journal entries:

\*\*Cash .....3,248  
     Note receivable .....3,200  
     Interest receivable .....32  
     Interest revenue .....16

Bank charge .....36  
   Accounts receivable.....900  
   Supplies .....18  
     \*\*Cash .....954

\*\* or one single entry of Dr. cash 2,294

**Part II**

(a) Impairment loss of receivable (8,893 – 7,245).....1,648  
     Allowance for impairment.....1,648  
 (b) Allowance for impairment .....900  
     Accounts receivable (Blue’s Club).....900

### Question C3

#### Part I

(a)	<u>2017</u>	<u>2018</u>
Straight-line		
<b>Year 1:</b> [(\$1.6m - \$0.2m) x 1/4 x 6/12]	<u>\$175,000</u>	
<b>Year 2:</b> (\$1.6m - \$0.2m) x 1/4		<u>\$350,000</u>
200%-declining-balance		
<b>Year 1:</b> (\$1.6m x 50%)	<u>\$800,000</u>	
<b>Year 2:</b> [(\$1.6m - \$0.8m) x 50%]		<u>\$400,000</u>
Units-of-output		
<b>Year 1:</b> [(\$1.6m - \$0.2m) x 32k/400k]	<u>\$112,000</u>	
<b>Year 2:</b> [(\$1.6m - \$0.2m) x 48k/400k]		<u>\$168,000</u>
(b) 2019: <b>Year 3:</b> [(\$1.6m - \$0.8m - \$0.4m) x 50%] = \$200,000		
2010: <b>Year 4:</b> [\$1.6m - \$0.8m - \$0.4m - \$0.2m - \$0.2m] = 0 (plug year)		

#### Part II

(a)	Dr Depreciation expense	\$52,800	
	Cr Accumulated depreciation (\$596,000 - 68,000) * 1/5 * 1/2		\$52,800
(b)	Dr Cash	\$260,000	
	Dr Accumulated Depreciation [(\$105,600 * 3)]	\$316,800	
	Dr Loss on Disposal	\$19,200	
	Cr Machinery		\$596,000

### Question C4

- (a)(i) Earnings per share  
=  $\$120 \div (\$400 \div \$2.5) = \$0.75$
- (a)(ii) Price-earnings ratio  
=  $\$10 \div \$0.75 = 13.33$
- (a)(iii) Current ratio  
=  $(1,214 - 670) \div (138 + 28 + 24 + 70) = 2.09$
- (a)(iv) Accounts Receivable turnover  
=  $1,180 (80\%) \div (174 + 198)/2 = 5.08 \text{ times}$
- (a)(v) Inventory turnover  
=  $820 \div (204 + 156)/2 = 4.56 \text{ times}$
- (a)(vi) Net profit rate  
=  $120 \div 1,180 = 10.17\%$
- (a)(vii) Dividend yield  
=  $\$0.15 \div 10 = 1.5\%$

<p>(a)(viii) Return on assets = <math>164 \div (1214 + 870)/2 = 15.74\%</math></p>
--