

THE HONG KONG POLYTECHNIC UNIVERSITY
HONG KONG COMMUNITY COLLEGE

Subject Title : Financial Accounting

Subject Code : CCN2101

Session : Semester Two, 2017/18

Numerical Answers

Question B1

Part I

(a)		Dr	Cr
(1)	Supplies expense (\$15,000 - \$11,000)	4,000	
	Supplies		4,000
(2)	Unearned revenue	30,000	
	Sales revenue		30,000
(3)	Rent expense	50,000	
	Rent payable		50,000
(4)	Insurance expense (\$27,000 x 3/6)	13,500	
	Prepaid insurance		13,500
(5)	Dividends (\$200,000 x 10%)	20,000	
	Dividends payable		20,000
(6)	Income taxes expense (\$120,000 - \$89,000)	31,000	
	Income taxes payable		31,000

(b)(i) Net book value = \$2,580,000 - \$1,430,000 = \$1,150,000

(b)(ii) Average purchase price of treasury shares
= \$125,000 / (1,200,000 - 1,150,000) = \$2.5

Part II

Happy Company
Income Statement
For the year ended 31 March 2018

Revenue Earned		\$1,000,000
Insurance expense	60,000	
Depreciation expense: Machinery	189,000	
Administrative expense	568,000	
Income taxes expense	56,000	
		873,000
Profit for the year		\$127,000

Question B2

CC Apple Company		
Statement of Cash Flows		
For the Year Ended 31 December 2017		
Cash flows from operating activities (Indirect method)		
Profit		\$180,000
Add: Depreciation expense	\$ 100,000	
Decrease in Inventory	10,000	
Decrease in prepaid expenses	30,000	
Increase in accounts payable	20,000	
		<u>160,000</u>
		\$340,000
Less: Non-operating gain	\$ 5,000	
Increase in accounts receivable	10,000	
Decrease in accrued expenses payable	<u>3,000</u>	<u>(18,000)</u>
Net cash from operating activities		322,000
Cash flows from investing activities:		
Purchases of production equipment	(100,000)	
Proceeds from sales of production equipment	<u>20,000</u>	
Net cash used in investing activities:		(80,000)
Cash flows from financing activities:		
Repaid of bank loan to bank	(20,000)	
Borrow bank loan from bank	100,000	
Purchase of treasury shares	(40,000)	
Dividends paid	<u>(10,000)</u>	
Net cash from financing activities		<u>30,000</u>
Net increase (decrease) in cash and cash equivalents		272,000
Cash and cash equivalents, beginning of year		<u>40,000</u>
Cash and cash equivalents, end of year		<u>\$ 312,000</u>

Question C1

		Dr	Cr
30 April	Cost of goods sold	150	
	Inventory		150
3 May	Inventory	900	
	Account payable		900
4	Account payable	90	
	Inventory		90
17	Account payable	810	
	Cash		810
22	Account receivable	1,125	
	Sales revenue		1,125
	Cost of goods sold	810	
	Inventory		810

Part II

(a) $\$12k + 22k - 8k = \$26,000$

Question C2**Part I**

Fisher Company Bank reconciliation 31 May 2017			
	\$		\$
Cash account balance	10,434	Bank statement balance	12,750
Additions:		Additions:	
Note receivable and interest (Suzy Co.)	2,405	Deposits in transit (7,008 – 6,821)	187
Deductions:		Deductions:	
Service charge	(63)	Outstanding checks (4,015 – 3,596)	(419)
NSF check (H. Dean)	(258)		
Corrected cash balance	<u>12,518</u>	Corrected cash balance	<u>12,518</u>

- (b) Adjusting journal entries:
- | | |
|---|-------|
| Cash | 2,405 |
| Note receivable | 2,300 |
| Interest receivable / Interest revenue..... | 105 |
| | |
| Bank service charge | 63 |
| Accounts receivable..... | 258 |
| Cash | 321 |
- (or one single entry of Dr. cash 2,084)

Part II

- (a) Impairment loss of receivable (1,580 – 1,350).....230
 Allowance for impairment.....230
- (b) Impairment loss of receivable (370,000 x 80% x 1%).....2,960
 Allowance for impairment2,960
- (c) Impairment loss of receivable (1,580 + 1,350).....2,930
 Allowance for impairment2,930

Question C3

Part II

	2016	2017
(a)	$\$2,000,000 \times \frac{1.5}{8} \times \frac{8}{12} = \$250,000$	$(\$2,000,000 - \$250,000) \times \frac{1.5}{8}$ = \$328,125
(b)	$(\$2,000,000 - \$400,000) \times \frac{40,000}{500,000}$ = \$128,000	$(\$2,000,000 - \$400,000) \times \frac{70,000}{500,000}$ = \$224,000

Part III

		Dr (\$)	Cr (\$)
(a)	Depreciation Expense $(\$1,500,000 - \$100,000) \times \frac{1}{5} \times \frac{1}{2}$	140,000	
	Accumulated Depreciation: Equipment		140,000
(b)	Cash	400,000	
	Accumulated Depreciation: Equipment $(\$1,500,000 - \$100,000) \times \frac{3}{5}$	840,000	
	Loss on disposal of PPE assets	260,000	
	Equipment		1,500,000

Question C4

- (a)(i) Earnings per share
 $= 115 \div 60 = \$1.92$
- (a)(ii) Price-earnings ratio
 $= 15 \div 1.92 = 7.81$ or 7.83
- (a)(iii) Quick ratio
 $= (95+155) \div (110+40) = 1.67$
- (a)(iv) Accounts Receivable turnover
 $= 727 (75\%) \div (155 + 149)/2 = 3.59$ times
- (a)(v) Times interest earned
 $= 168 \div 13 = 12.92$
- (a)(vi) Debt ratio
 $= (110+40+360) \div 1240 = 41.13\%$
- (a)(vii) Dividend yield
 $= (45/60) \div 15 = 5\%$
- (a)(viii) Return on equity
 $= 115 \div (300+430+300+360)/2 = 16.55\%$