

THE HONG KONG POLYTECHNIC UNIVERSITY
HONG KONG COMMUNITY COLLEGE

Subject Title : Intermediate Accounting

Subject Code : CCN2121

Session : Semester One, 2017/18

Numerical Answers

Question B1

(a)	1 Jan	Investment in TenDollars stock	1,430,000	
		Cash		1,430,000
	30 Jun	Investment in HandBook's bonds	285,000	
		Discount on bond investment		22,007
		Cash		262,993
	30 Aug	Cash	1,040,000	
		Gain on sale of investment		160,000
		Investment in TenDollars stock		880,000
	30 Nov	Cash	62,500	
		Investment revenue (dividends)		62,500
	30 Dec	Cash	11,400	
		Discount on bond investment	1,750	
		Investment revenue		13,150
	31 Dec	Fair value adjustment	150,000	
		Net unrealized holding gain and loss - OCI		150,000

(b) **Statement of Financial Position (extract)**

Assets:

Investment in HandBook's bonds	285,000	
Less: Discount on bond investment	<u>(20,257)</u>	
Amortized cost		264,743

Available-for-sale securities

Investment in TenDollars's stock	550,000	
Add: Fair value adjustment	<u>150,000</u>	
		700,000

Question B2

(a)	Date	Periodic payment	Effective interest	Decrease in balance	Balance
	1 January 2017				\$41,234
	31 December 2017	\$16,000	\$3,299	\$12,701	\$28,533
	31 December 2018	\$16,000	\$2,283	\$13,717	\$14,816
	31 December 2019	\$16,000	\$1,184	\$14,816	0
	Total	<u>\$48,000</u>	<u>\$6,766</u>	<u>\$41,234</u>	

(b) \$6,766

(c)(i) **\$534**

(c)(ii) 30 June 2017 (lessee)

Leased assets	24,534	
Lease payable		24,534
Lease payable	4,500	
Cash		4,500

(c)(iii) 31 December 2017 (lessee)

Interest expense	802	
Lease payable	3,698	
Cash		4,500
Depreciation expense – leased asset	3,067	
Accumulated Depreciation – leased asset		3,067

Question B3

(a) Basic EPS = \$2.03

(b)(1) Conversion of preference shares = \$2.02

(b)(2) Exercise of share option = \$1.96

(b)(3) Conversion of bonds = \$1.94

(b)(4) Exercise of share warrants = \$2.11

Question B4

(a) GP recognized in 2016 = \$21,450

Gross Loss recognized in 2017 = -\$27,450 (loss)

GP recognized in 2018 = \$3,600

(c)	<u>2016</u>		
	Construction in progress	52,800	
	Various accounts		52,800
	Accounts receivable	66,000	
	Billings on construction contract		66,000
	Cash	54,000	
	Accounts receivable		54,000
	<u>2016</u>		
	Cost of construction	52,800	
	Revenue from long-term contracts		52,800

Question B5

Part I

(a)

PROFITABLE INVESTMENT ENTERPRISES, INC.		
Partial Income Statement		
For the Year Ended December 31, 2016		
Income from continuing operations		\$ 384,000
Discontinued operations:		
Loss from operations of discontinued component (including impairment loss of \$141,400)	(275,800)	
Income tax benefit	<u>110,320</u>	
Loss on discontinued operations		<u>(165,480)</u>
Net income		<u>\$ 218,520</u>

(b)

PROFITABLE INVESTMENT ENTERPRISES, INC.		
Partial Income Statement		
For the Year Ended December 31, 2016		
Income from continuing operations		\$ 384,000
Discontinued operations:		
Loss from operations of discontinued component	(134,400)	
Income tax benefit	<u>53,760</u>	
Loss on discontinued operations		<u>(80,640)</u>
Net income		<u>\$ 303,360</u>

Part II

(a) Cash Flows from Operating Activities using Indirect Method

Net income	\$ 38,000
Loss on sale of land	22,000
Depreciation expense	7,000
Decrease in current liabilities	(19,000)
Increase in current assets (other than cash)	<u>(24,000)</u>
Net cash flows from operating activities	<u>\$ 24,000</u>