

THE HONG KONG POLYTECHNIC UNIVERSITY
HONG KONG COMMUNITY COLLEGE

Subject Title : Intermediate Accounting

Subject Code : CCN2121

Session : Semester One , 2018/19

Numerical Answers

Question B1

- (i) Gross profit /(loss) recognized in :
 2015 : **\$500,000**
 2016 : **\$2,500,000 (loss)**
 2017 : **\$500,000 (loss)**

- (ii) Statement of Financial Position (partial) as of 31 December

	<u>2015</u>	<u>2016</u>
	\$	\$
<u>Current Assets</u>		
Accounts receivable	200,000	2,200,000
Costs less loss (\$23,000,000) in excess of billings (\$21,700,000)		1,300,000
<u>Current Liabilities</u>		
Billings (\$7,200,000) in excess of costs and profit (\$4,000,000)	3,200,000	

(iii)

	Gross profit /(loss) recognized
2015	0
2016	(\$200,000)

Question B2

Part I

- (a)(i) Ending inventory (individual basis) **\$14,450**

	Dr (\$)	Cr (\$)
Loss on reduction to LCM/COGS (\$5,950-4,200)	1,750	
Inventory		1,750

- (b)(i) Ending inventory (entire goods) **\$16,200.**

Part II

	\$	\$
Inventory per books		28,500
Add: (2) Shipment to Vince F.O.B. destination	12,000	
(5) TVs shipped to customer F.O.B. destination	6,100	
(6) Freight charge	1,500	
(7) Merchandise on consignment	<u>800</u>	20,400
		48,900
Deduct: (3)TVs recorded twice	4,600	
(4)TVs shipped to customer F.O.B. shipping point	<u>10,000</u>	14,600
Correct inventory as at 31/12/17		<u>34,300</u>

Question B3

(a)(ii)	Machine A		Dr (\$)	Cr(\$)
	1 Jan 2017	Lease Receivable	113,050	
		Inventory of equipment		113,050
	Machine B			
	1 Jan 2017	Cash	4,200	
		Unearned revenue		4,200
(b)(i)	The present value of minimum lease payments = \$3,000,000			
(b)(ii)	<u>Expenses for year ended December 31, 2018</u>			
		Interest expense [(\$3,000,000 - 562,907) x 5%].....	\$121,855	
		Depreciation expense [\$3,000,000/3years x 1/2 year].....	500,000	

Question B4

- (a) Basic earnings per share: = **\$1.53**
- (b) Diluted earnings per share: = 1.37

Question B5

1-Jan	Investment in Super Bro's bonds	385,000	
	Cash		366,068
	Discount on bond investment		18,932
1-Mar	Investment in Hang Lung Company stock	901,500	
	Cash		901,500
30-May	Cash	700,000	
	Investment in Hang Lung Company stock		601,000
	Gain on sale of investment		99,000
30-Jun	Cash	15,000	
	Investment revenue (dividends)		15,000
1-Jul	Cash	19,250	
	Discount on bond investment	2,714	
	Investment Revenue		21,964
31-Dec	Fair value adjustment	19,500	
	Net unrealized holding gain and loss-OCI		19,500

Question B6

French Corporation
Statement of Cash Flows
For the Year Ended December 31, 2017

	\$	\$
<u>Cash flows from operating activities</u>		
Net income	58,300	
Adjustments for noncash effects		
Depreciation expense	19,000	
Changes in operating assets and liabilities		
Increase in accounts receivable	(10,600)	
Decrease in inventory	20,000	
Increase in prepaid expenses	(700)	
Increase in accounts payable	6,000	
Decrease in accrued liabilities	<u>(9,000)</u>	<u>24,700</u>
Net cash flows from operating activities		83,000

<u>Cash flows from investing activities</u>		
Purchase of land	(30,000)	
Purchase of buildings	<u>(43,000)</u>	
Net cash used in investing activities		(73,000)
<u>Cash flows from financing activities</u>		
Sale of bonds	65,000	
Purchase of treasury shares	(7,000)	
Payment of cash dividends	<u>(20,000)</u>	
Net cash used in financing activities		<u>38,000</u>
Net increase in cash		48,000
Cash, as at January 1, 2017		<u>27,000</u>
Cash, as at December 31, 2017		<u>75,000</u>