

THE HONG KONG POLYTECHNIC UNIVERSITY
HONG KONG COMMUNITY COLLEGE

Subject Title : Intermediate Accounting

Subject Code : CCN2121

Session : Semester Two, 2017/18

Numerical answers

Question B1

(a)	1 Jan	Investment in Morning Star stock	816,000	
		Cash		816,000
	30 Jun	Investment in KCH's bonds	208,000	
		Discount on bond investment		10,904
		Cash		197,096
	30 Nov	Cash	54,400	
		Investment revenue (dividends)		54,400
	31 Dec	Cash	6,240	
		Discount on bond investment	1,644	
		Investment revenue		7,884
	31 Dec	Net unrealized holding loss - OCI	136,000	
		Fair value adjustment		136,000
(b)	<u>2017 Income Statement (extract)</u>			
	<u>Other income (expense):</u>			
		Interest/Investment revenue		62,284
	<u>Other comprehensive income:</u>			
		Net unrealized holding gain/(loss) on investments		(136,000)

Question B2

- (i) GP recognized in 2016 = \$32,175
 Gross Loss recognized in 2017 = -\$41,175
 GP recognized in 2018 = \$5,400

(ii) **2016**

Construction in progress	79,200	
Various accounts, cash, materials, etc.		79,200
Accounts receivable	99,000	
Billings on construction contract		99,000
Cash	81,000	
Accounts receivable		81,000
2016		
Cost of construction	79,200	
Revenue from long-term contracts		79,200

Question B3

- (a) **Diluted Earnings per share** = \$555,750 / \$584,250 = **\$0.95**

Question B4

(a)(ii)

<u>Machine A</u>		
Lease receivable	35,006	
Inventory of machine		35,006
<u>Machine B</u>		
Cash	3,150	
Unearned rent revenue		3,150

- (b)(i) \$127,505

(b)(ii)

Jan 1	Lease receivable	127,505	
	Cost of goods sold	85,000	
	Sales revenue		127,505
	Inventory of machine		85,000
Jan 1	Cash	25,000	
	Lease receivable		25,000
(b)(iii) Dec 31	Depreciation Expense	15,938	
	Accumulated Depreciation		15,938

Question B5Part I

(a)

Ocean Blue Corporation
Partial Income Statement
 For the Year Ended December 31, 2017

Income from continuing operations		\$ 460,800
Discontinued operations:		
Loss from operations of discontinued component	(161,280)	
Income tax benefit (30%)	<u>48,384</u>	
Loss on discontinued operations		<u>(112,896)</u>
Net income		<u>\$ 347,904</u>

Part II(a) Cash Flows from Operating Activities using Indirect Method

Net income	\$ 45,600	
Loss on sale of land	26,400	
Depreciation expense	8,400	
Decrease in current liabilities	(22,800)	
Increase in current assets (other than cash)	<u>(28,800)</u>	
Net cash flows from operating activities		<u>\$ 28,800</u>

Question B6Part I

(a)(i) Ending inventory (individual basis) = \$ 1,370,880

(a)(ii) The required journal entries

	\$	\$
Dr. Loss on reduction to LCM / COGS	36,720	
Cr. Inventory		36,720

(b)(i) Ending inventory (entire goods) = \$ 1,407,600

Part II

	<u>Cost of Goods Sold</u>	<u>Retained Earnings</u>
(i)	O	U
(ii)	O	U
(iii)	O	U