

Section B

**Problem 1**

a.

<b>The Journal</b>			
Date		Dr. (\$)	Cr. (\$)
01/02/2010	Machinery	57,000	
	Cash		57,000
31/12/2010	Depreciation Expense ((57,000-3,000)/6)	9,000	
	Accumulated Depreciation		9,000
31/12/2011	Depreciation Expense	9,000	
	Accumulated Depreciation		9,000
01/01/2012	Cash	19,000	
	Accumulated Depreciation	18,000	
	Loss on Disposal	20,000	
	Machine		57,000

b.

Depreciable rate =  $(\$80,000 - \$4,000) / 152,000 \text{ units} = \$0.5/\text{unit}$

Year	Annual Depreciation	Accumulated Depreciation	Closing Book Value
2012	$\$35,000 * 0.5 = \$17,500$	\$17,500	\$62,500
2013	$\$28,000 * 0.5 = \$14,000$	\$31,500	\$48,500
2014	$\$25,000 * 0.5 = \$12,500$	\$44,000	\$36,000

**Problem 2**

<b>The Journal</b>			
Date		Dr. (\$)	Cr. (\$)
01/05/2013	Inventory	15,000	
	Accounts Payable		15,000
01/06/2013	Furniture	35,000	
	Note Payable, 4%		35,000

01/09/2013	Cash	85,000	
	Note Payable, 3%		85,000
15/09/2013	Accounts Payable (A/P)	7,500	
	Cash		7,500
01/12/2013	Interest Expense ( $\$35,000 \times 4\% \times 1/2$ )	700	
	Note Payable	35,000	
	Cash		35,700
31/12/2013	Warranty Expense	5,000	
	Provision for Warranty Repairs		5,000
31/12/2013	Interest Expense ( $\$85,000 \times 3\% \times 4/12$ )	850	
	Interest Payable		850
31/12/2013	Income Tax Expense	3,000	
	Income Tax Payable		3,000
31/05/2014	Provision for Warranty Repairs	2,000	
	Inventory		2,000
31/08/2014	Interest Expense ( $\$85,000 \times 3\% \times 8/12$ )	1,700	
	Interest Payable	850	
	Note Payable	85,000	
	Cash		87,550

### Problem 3

a.

<b>The Journal</b>			
Date		Dr. (\$)	Cr. (\$)
Jan 01	Cash ( $\$12 \times 700$ )	8,400	
	Ordinary Shares ( $\$5 \times 700$ )		3,500
	Paid-in Capital in excess of par		4,900
Jan 02	Organization fees ( $\$5 \times 400$ )	2,000	
	Ordinary Shares		2,000
Jan 10	Land	50,000	
	Ordinary Shares		25,000
	Paid-in Capital in excess of par		25,000

Jan 20	Legal Expenses	10,000	
	Preference Shares		10,000
Jan 28	Equipment	100,000	
	Building	200,000	
	Ordinary Shares (\$5*50,000)		250,000
	Paid-in Capital in excess of par		50,000

b.

<b>Ending Balance of Shareholders' Equity:</b>	<b>\$</b>
Preference Shares	10,000
Ordinary Shares (\$3,500 + \$2,000 + \$25,000 + \$250,000)	280,500
Paid-in Capital in excess of par (\$4,900 + \$25,000 + \$50,000)	79,900
Retained Earnings	50,000
Ending Balance of Shareholders' Equity	<u>420,400</u>

#### Problem 4

a.

<b>Cash Flow From Operating Activities</b>	<b>\$</b>
Net Income	100
Gain on Sale of Equipment	(16)
Depreciation Expense	36
Increase in Current Asset other than Cash	(26)
Increase in Current Liabilities	60
Net Cash Balance from Operating Activities	<u>154</u>

b.

<b>Cash Flow From Investing Activities</b>	<b>\$</b>
Purchase of Long-term Assets	(392)
Loan to Others	(42)
Proceeds from Sale of Equipment (Working)	124
Net Cash Balance from Investing Activities	<u>(310)</u>

Working of Proceeds from Sale of Equipment:

	\$
Opening Balance, January 1 2012	438
Purchase	392
Depreciation	(36)
<b>Net Book Value of Sales on Equipment</b>	<b>(108)</b>
Closing Balance, December 31 2012	686

From Disposal Account, \$108 (NBV) + \$16 (Gain on Disposal) = \$124 (Proceeds from the sale of equipment).

c.

<b>Cash Flow From Financing Activities</b>	<b>\$</b>
Issuance of Shares	8
Long-term Note Payable	188
Payment of Note	(22)
Dividend Paid	(34)
(\$100(Net Income)-\$66(Changes in Retained Earnings))	
<b>Net Cash Balance from Financing Activities</b>	<b>140</b>

**Problem 5**

a-c.

<b>Ratios</b>	<b>2011</b>	<b>2012</b>	<b>Use</b>	<b>Improve / Decline</b>
Accounts receivable turnover	10.53 times	10.88 times	Cash conversion	Improve
Acid-test ratio	10.01:1	12.5:1	Short-term liquidity	Improve
Cash conversion ratio	-128.81 days	-118.74 days	Cash conversion	Improve
Current ratio	10.13:1	12.66:1	Short-term liquidity	Improve

Debt ratio	0.51	0.63	Long-term liquidity	Decline
Inventory turnover	8.54 times	9.91 times	Cash conversion	Improve
Net profit margin	0.09	0.06	Profitability	Decline
Payable turnover	1.77 times	1.93 times	Cash conversion	Decline
Return on ordinary shareholders' equity	0.12	0.09	Profitability	Decline
Return on total assets	0.02 (0.01739)	0.01 (0.00941)	Profitability	Decline
Times-interest-earned ratio	2.63	1.67	Long-term liquidity	Decline

d.

-Cash conversion:

Improved, cash conversion cycle rose, mainly contributed to the faster sales of inventory (inventory turnover/inventory resident period)

-Short-term liquidity:

Improved, mainly contributed to the significant rise in cash equivalent

-Long-term liquidity:

Deteriorated, mainly contributed to the significant rise in long-term debt and its related interest expense

Profitability:

Deteriorated, mainly contributed to the significant rise in interest expense, though the gross and operating income improved

e.

Cash conversion: Speed up collection of debt from sales on credit, by giving a small increase in cash discounts

Profitability: Increase share capital, instead of debt financing, when capital is required