Section B

Problem 1

Part A

		The Journal		
	Date		Dr. ($)	Cr. ($)
a	2008 Mar 31	Accumulated Depreciation ((90,000-6,000)/10*3/12+58,800) Cash Loss on Disposal Equipment	 60,900 24,000 5,100	 90,000
b		Accumulated Depreciation Cash Machine (35,000+8,000)	28,000 15,000	 43,000
c		Accumulated Depreciation (20,000-6,000) Cash Office Equipment Gain on Disposal	14,000 8,000	 20,000 2,000

Part B

a) Under Straight-line method:

Depreciation Expenses: (35,000,000-5,000,000)/20 = **$1,500,000**

NBV: $35,000,000-$1,500,000 = **$30,500,000**

Under Double-declining-balance method:

Depreciable rate = 1/20*2*100% =10%

Year End	Annual Depreciation	Accumulated Depreciation	Closing Book Value
2007	$35,000,000*10% = $3,500,000	$3,500,000	$31,500,000
2008	$31,500,000*10%	$6,650,000	$28,350,000

	= $3,150,000		
2009	$28,350,000*10% = **$2,835,000**	$9,485,000	**$25,515,000**

b) Depreciation for 31/12/2010:

(30,500,000-3,500,000)/(15-3) = $2,250,000

Part C

Year	**Telephone Expense** $ Overstate ($ Understate)	**Depreciation Expense** $ Overstate ($ Understate)	**Net Income** $ Overstate ($Understate)
2007	$10,000	($2,500)	($7,500)
2008	0	($2,500)	$2,500
2009	0	($2,500)	$2,500
2010	0	($2,500)	$2,500

Problem 2

a) $2,800

b)

2012		$
1 Feb	Issuance (100*$20)	2,000
3 May	Issuance (24,800*$1)	24,800
14 Aug	Issuance (100*$1)	100
	Ending Balance of Ordinary Shares	24,900

c)

2012		$
3 May	Issuance (24,800*$9)	224,200
14 Aug	Issuance for Equipment (2,800-100)	2,700
	Ending Balance of Paid-in Capital in excess of Par	225,900

d) 2,000

e) $1,000,000*1.05 = $1,050,000

f)

	$
Beginning Balance	20,000
Warranty Expense during 2013	60,000
Payments during 2013	(45,000)
Ending Balance of Provision for Warranty Claims	35,000

g) $30,000*7%*18/360 = $105

h) $20 million

i) EPS = (Net Income – Preference Dividend) / Average # of Ordinary Shares

N/P: $87,400/23,000 = $3.8/share

Ordinary Share: $107,500/((23,000+25,000)/2) = $4.48/share

So, issuing ordinary shares gets a higher EPS, by $0.68/share.

Problem 3

a.

Cash Flow From Operating Activities	**$**
Net Income	24,000
Loss on Sale of Long-term Investment	2,000
Depreciation Expense	4,000
Increase in A/R	(4,000)
Increase in Inventory	(9,000)
Decrease in Prepaid Expense	3,000
Increase in A/P	10,000
Net Cash Balance from Operating Activities	30,000

b.

Cash Flow From Investing Activities	**$**
Sale of Long-term Investment	16,000
Purchase of Equipment	(28,000)
Net Cash Balance from Investing Activities	(12,000)

c.

Cash Flow From Financing Activities	**$**
Retirement of Bonds Payable	(10,000)
Issuance of Shares	17,000
Dividend Paid	(12,000)
Net Cash Balance from Financing Activities	(5,000)

Problem 4

a-c)

Ratios	**2013**	**2012**	**Improve/ Decline**	**Purpose**
Accounts Payable Outstanding Period	67.31 days	65.21 days	Improve	Cash
Accounts Receivable Collection Period	35.38 days	35.83 days	Improve	Cash
Acid-test Ratio	2.07:1	2.00:1	Improve	Current
Current Ratio	2.15:1	2.07:!	Improve	Current
Debt Ratio	0.6327	0.6373	Improve	Long-term
Gross Profit Percentage	3.74%	1.62%	Improve	Profit
Inventory Resident Period	5.10 days	4.39 days	Decline	Cash
Return on Assets	0.0178	0.0074	Improve	Profit
Return on Equity	3.69	1.36	Improve	Profit
Times-Interest-Earned	3.69 times	1.82 times	Improve	Long-term
Working Capital	-$1,592	$314	Decline	Current

d)

(1) Cash Conversion Cycle

for 2012 = -24.99 days

for 2013 = -26.83 days

(2) the # of days the company has to collect repayment from A/R and payment from inventory and repay A/P

(3) Improve

(4) Relatively large percentage increase in A/P

e)

(1) Improve. Increase in gross profit percentage / return on assets / return on equity

(2)

– an increase in final sales revenue with a decrease in total cost, leading to better gross profit and its percentage
- a decrease in tax expenses percentage
- a slight rise in other income

(3) – a low operating return (gross profit percentage) may contribute to a lack of cash flow and difficulty in financing new projects

(4)

Maintain: contribute to a small other revenue, improving the profitability

Sell: avoid freezing a large amount of cash, can be put in other more profitable investments