**ACCT2111 Introductory Financial Accounting**

**2018-2019 1st Term**

**Suggested Solution**

Section B

Problem 1

**Company T**

**Bank Reconciliation**

**31 December, 2017**

| | | |
|---|---|---|
| **BANK :** | $ | $ |
| Balance, 31 December 2017 | | 4,500 |
| Add : Deposits in transit | | 1,133 |
| | | 5,633 |
| Less : Outstanding cheques | | (3,000) |
| Adjusted bank balance | | 2,633 |
| | | |
| **BOOKS :** | | |
| Balance, 31 December 2017 | | 2,000 |
| Add : Interest revenue | 8 | |
| Note receivable collected by bank | 900 | 908 |
| | | 2,908 |
| Less : Service charge | 35 | |
| Charges for collecting note receivable | 40 | |
| NSF cheque | 200 | (275) |
| Adjusted book balance | | 2,633 |

Problem 2

1)

**Journal**

| Date | Details | Dr | Cr |
|---|---|---|---|
| 2013 | | $ | $ |
| Jan 1 | Machinery ($58,000 + $2,000) | 60,000 | |
| | Cash | | 60,000 |

2)

| Year | Depreciation Expense | Net Book Value |
|---|---|---|
| 2013 | $60,000 x 40% = $24,000 | $60,000 - $24,000 = 36,000 |
| 2014 | $36,000 x 40% = $14,400 | $36,000 - $14,400 = $21,600 |
| 2015 | $21,600 x 40% = $8,640 | $21,600 - $8,640 = $12,960 |
| 2016 | $12,960 x 40% = $5,184 | $12,960 - $5,184 = $7,776 |
| 2017 | $7,776 - $5,000 = $2,776<br>(Amount that obtains residual value) | $7,776 - $2,776 = $5,000<br>(Residual value) |

Workings :

(i) Depreciation rate = 1 / 5 x 2 = 40%

3) Depreciation expense for 2015 = ($60,000 - $5,000) / 5 = $11,000

Accumulated depreciation expense of the machine at the end of 2015 = ($60,000 - $5,000) / 5 x 3
= $33,000

∴ Net book value of the machine at the end of 2015 = $60,000 - $33,000 = $27,000

4) Depreciation expense for 2016 = ($60,000 - $5,000) / 11,000 x 3,200 = $16,000

5)

**Journal**

| Date | Details | Dr | Cr |
|---|---|---|---|
| 2017 | | $ | $ |
| Dec 31 | Cash | 6,000 | |
| | Accumulated depreciation : Machinery | | |
| | ($60,000 - $5,000) / 5 x 5 | 55,000 | |
| | Machinery | | 60,000 |
| | Gain on sale of machinery | | 1,000 |

Problem 3

1) Sales revenue = $40 x 1,000 = $40,000

   Cost of goods sold = $16 x 400 + $15 x (1,000 – 400) = $15,400

   Operating expenses = $8,000

   Income before tax = $40,000 - $15,400 - $8,000 = 16,600

   Net income = $16,600 - $16,600 x 40% = $9,960

2) Sales revenue = $40 x 1,000 = $40,000

   Cost of goods sold = $15 x 1,000 = $15,000

   Operating expenses = $8,000

   Income before tax = $40,000 - $15,000 - $8,000 = $17,000

   Net income = $17,000 - $17,000 x 40% = $10,200

3) Cost per unit of inventory using the Weighted Average Inventory Cost Assumption Method

   = ($16 x 400 + $15 x 1,600) / (400 + 1,600)

   = $15.2

   Sales revenue = $40 x 1,000 = $40,000

   Cost of goods sold = $15.2 x 1,000 = $15,200

   Operating expenses = $8,000

   Income before tax = $40,000 - $15,200 - $8,000 = $16,800

   Net income = $16,800 - $16,800 x 40% = 10,080

Problem 4

1)

**Journal**

| Date | Details | Dr | Cr |
|---|---|---|---|
| 2018 | | $ | $ |
| Feb 13 | Cash ($7 x 5,200) | 36,400 | |
| | Share capital ($2 x 5,200) | | 10,400 |
| | Paid-in capital in excess of Par - Ordinary | | 26,000 |
| Jun 7 | Retained earnings ($0.80 x 400) | 320 | |
| | Dividends payable | | 320 |
| Jun 24 | Dividends payable | 320 | |
| | Cash | | 320 |
| Aug 9 | Retained earnings [(6,300 + 5,200) x 20% x $8] | 18,400 | |
| | Share capital [(6,300 + 5,200) x 20% x $2] | | 4,600 |
| | Paid-in capital in excess of Par - Ordinary | | 13,800 |
| Oct 26 | Treasury shares ($9 x 900) | 8,100 | |
| | Cash | | 8,100 |
| Nov 20 | Cash ($14 x 600) | 8,400 | |
| | Treasury shares ($9 x 600) | | 5,400 |
| | Paid-in capital from treasury shares | | 3,000 |

2)

| **Shareholders' equity** | $ |
|---|---|
| $0.80 cumulative preference share, $15 par, 400 shares issued | 6,000 |
| Ordinary share, $2 par, 13,800 shares issued ($12,600 + $10,400 + $4,600) | 27,600 |
| Paid-in capital in excess of par - ordinary ($17,400 + $26,000 + $13,800) | 57,200 |
| Paid-in capital from treasury shares | 3,000 |
| Retained earnings ($23,000 + $24,000 - $320 - $18,400) | 28,280 |
| | 122,080 |
| Less : Treasury shares, 300 shares ($8,100 - $5,400) | (2,700) |
| Total shareholders' equity | 119,380 |

Problem 5

| **Cash Flow from Operating Activities** | $ | $ |
|---|---|---|
| Net profit | | 35,000 |
| Add : Depreciation expense | 11,000 | |
| Loss on sale of investments | 2,000 | |
| Decrease in accounts receivable ($28,000 - $22,000) | 6,000 | |
| Increase in accounts payable ($27,000 - $23,000) | 4,000 | |
| Increase in wages payable ($6,000 - $2,500) | 3,500 | 26,500 |
| | | 61,500 |
| Less : Increase in inventory ($94,000 - $66,000) | 28,000 | |
| Increase in prepaid advertising ($12,000 - $9,000) | 3,000 | |
| Decrease in income tax payable ($4,500 - $3,000) | 1,500 | (32,500) |
| Cash Flow from Operating Activities | | 29,000 |

Problem 6

1)

| | **HSH** | **Shangri-la Asia Limited** |
|---|---|---|
| Inventory Turnover | $433,000,000 / [($82,000,000 + $77,000,000) / 2] = 5.45 | $955,000,000 / [($42,000,000 + $38,000,000) / 2] = 23.875 |
| Accounts Receivable Turnover | $5,782,000,000 x 20% / [($271,000,000 + $285,000,000) / 2] = 4.16 | $2,190,000,000 x 20% / [($305,000,000 + $324,000,000) / 2] = 1.39 |
| Accounts Payable Turnover | $433,000,000 / [($148,000,000 + $140,000,000) / 2] = 3.01 | $955,000,000 / [($787,000,000 + $876,000,000) / 2] = 1.15 |
| Asset Turnover (Workings) | $5,782,000,000 / [($45,870,000,000 + $48,520,000,000) / 2] = 0.12 | $2,190,000,000 / [($12,994,000,000 + $13,676,000,000) / 2] = 0.16 |

Workings :

(i) Total assets of HSH in 2016 = $2,935,000,000 + $42,935,000,000 = $45,870,000,000

(ii) Total assets of HSH in 2017 = $2,809,000,000 + $45,711,000,000 = $48,520,000,000

(iii) Total assets of Shangri-la Asia Limited in 2016 = $1,408,000,000 + $11,586,000,000
= $12,994,000,000

(iv) Total assets of Shangri-la Asia Limited in 2017 = $1,446,000,000 + $12,230,000,000
= $13,676,000,000

2) Shangri-la Asia Limited

- Higher inventory turnover :
  It uses the inventory more efficiently as it is able to sell its inventory more quickly, meaning that it only needs to maintain a smaller inventory to generate the same level of sales.

- Lower accounts payable turnover :
  It takes longer time to pay its accounts payable, meaning that its cash flow is more flexible.

- Higher asset turnover :
  It uses the assets more efficiently to generate sales, meaning that it can use fewer assets to generate a given level of sales revenue.

3) Concerns / limitations

- Inventory turnover and asset turnover may not directly measure two companies' efficiency :
  For the former, the two companies operate hotels, which is in the service industry. This implies that inventory is not a major component of the costs. For the latter, hotels usually invest in large property, plant and equipment. This indicates that their asset turnover may be low.

- Incorrect assumptions may lead to incorrect ratios calculated :
  It is assumed that 20% of the sales revenue are credit sales. However, if this assumption is wrong, the accounts receivable turnover will be wrong. Besides, instead of using the net credit purchases in calculating the accounts payable turnover, cost of sales is used. Incorrect ratios may then be resulted due to misuse of figures.

4) Concrete suggestions

- HSH can reduce the use of assets by leasing more property, plant and equipment.

- To further increase the accounts receivable turnover, HSH can speed up collections by providing cash discounts to encourage accounts receivable to settle the amount within the credit period.