ACCT2111 Introductory Financial Accounting

2020-2021 1st Term

Suggested Solution

Short Questions

SQ 1:

a. The amount of bad debt expense to be recorded for the year = $87,000 x 0.6% + $44,200 x 2.0% + $17,800 x 5.5% + $16,400 x 21.0% – $600 = $5,229

b. The amount of Allowance for Doubtful Accounts appearing in its Dec. 31, 2016 balance sheet = $87,000 x 0.6% + $44,200 x 2.0% + $17,800 x 5.5% + $16,400 x 21.0% = $5,829

c. The amount of Net Accounts Receivable appearing in its Dec. 31, 2016 balance sheet = $165,400 – $5,829 = $159,571

d. Ending balance of Accounts Receivable after the transactions = $165,400 – $540 = $164,860

e. Ending balance of Allowance for Doubtful Accounts after the transactions = $5,829 + $270 – $540 = $5,559

SQ 2:

Part A

The ending inventory balance of ABC Company at the end of 2018 = $75,300 + $1,425,000 + $145,640 x (1 – 55%) – $1,425,000 x 12% x 3% = $1,560,708

Part B

Gross profit under gross profit method = ($2,286,400 – $207,820) x 45% = $935,361
Cost of goods sold = $2,286,400 – $207,820 – $935,361 = $1,143,219
Cost of goods available for sale = $67,800 + $1,324,000 – $178,740 = $1,213,060
Using the gross profit method, the ending balance of the inventory of ABC Company = $1,213,060 – $1,143,219 = $69,841

SQ 3:

Current Assets: NE
Non-Current Assets: O
Non-Current Liabilities: NE
Shareholders' Equity: O
Net Income: O

SQ 4:

Part A

A) The depreciation expense for year 6 = {$26,000 – [($26,000 – $2,000) x 5 / 10] – $2,000} x 1 / 10 = $1,200

B) The depreciation expense for year 6 = {$26,000 – [($26,000 – $2,000) x 5 / 10] – $1,000} x 1 / 5 = $2,600

C) The depreciation expense for year 6 = {$26,000 – [($26,000 – $2,000) x 5 / 10] – $3,000} x 1 / 2 = $5,500

Part B

The amount at which the fixture should be recorded as an asset = $500,000 + $500,000 x 5% + $30,000 = $555,000

Part C

The balance in the Accumulated Depletion account for the mineral deposit on December 31, 2020 = ($12,000,000 / 2,000,000) x (610,000 + 480,000) = $6,540,000

Long Questions

LQ 1:

Journal

Date	Details	Dr	Cr
2019		$	$
Feb 1	Cash (700,000 x $7)	4,900,000	
	Ordinary Shares (700,000 x $1)		700,000
	Paid-in capital in excess of Par (700,000 x $6)		4,200,000
	To issue ordinary shares above par.		
Apr 1	Cash (5,000 x $100)	500,000	
	2% Preference Shares		500,000
	To issue 2% preference shares.		
May 30	Treasury Shares (100,000 x $10)	1,000,000	
	Cash		1,000,000
	To record purchases of treasury shares.		
Dec 1	Retained Earnings (600,000 x $0.5 + 5,000 x $100 x 2% x 9 / 12)	307,500	
	Dividends Payable, Preference (5,000 x $100 x 2% x 9 / 12)		7,500
	Dividends Payable, Ordinary (600,000 x $0.5)		300,000
	Declared a cash dividend.		
Dec 20	Dividends Payable, Preference	7,500	
	Dividends Payable, Ordinary	350,000	
	Cash		357,500
	Paid cash dividend.		
Dec 25	Land	300,000	
	Treasury Shares (20,000 x $10)		200,000
	Ordinary Shares		100,000
	To record resale of treasury shares for land.		

LQ 2:

A. Days' inventory outstanding = 365 / ($66,585 / $11,500) = 63.04 Days

Days' sales outstanding = 365 / [($132,500 x 80%) / $12,500] = 43.04 Days

Current liabilities = Accounts payable = $32,427 / 2.25 = $14,412
Days' payable outstanding = 365 / ($66,585 / $14,412) = 79.00 Days

Cash conversion cycle = 63.04 + 43.04 – 79.00 = 27.08 Days

B. Debt ratio = Total Liabilities / Total Assets
Debt-to-equity ratio = Total Liabilities / Total Equity = Debt ratio / 1 – Debt ratio

Total Liabilities / $49,940 = 56% / (1 – 56%)
Total Liabilities = (56% / 44%) x $49,940
Total Liabilities = $63,560

56% = $63,560 / Total Assets
Total Assets = $113,500

The return on assets = $15,890 / $113,500 = 0.14

The return on common equity = ($15,890 – $17,560 x 8%) / ($49,940 – $17,560) = 0.45

The earnings per ordinary share of the company = ($15,890 – $17,560 x 8%) / ($193 / $0.025) = $1.88

C. No, I don't agree.

EPS doesn't capture the performance of Apple Inc. and XYZ Company as it fails to take into account the price of the share which will affect the investment incentives of the people.

ROA cannot be used for comparison across industries since XYZ Company is a fashion company while Apple Inc. is a technology company, they have different asset bases which cannot be used to determine whether to invest or not.