

ACCT2111 Introductory Financial Accounting  
2021-2022 1st Term  
Suggested Solution

Part B

Question 2

**SXX Company**  
**Statement of Cash Flows**

**For the Year Ended December 31, 2020**

<b>Cash Flow from Operating Activities:</b>		\$	\$	\$
Net income				108,000
Add:	Depreciation expenses		62,000	
	Decrease in prepaid insurance		2,000	
	Increase in interest payable		5,000	
	Increase in accounts payable		10,000	
			79,000	
Less:	Decrease in income tax payable	7,000		
	Gain on sale of equipment	16,000		
	Increase in accounts receivables	25,000		
	Increase in inventory	51,000	(99,000)	(20,000)
			(99,000)	
<i>Net Cash provided from operating activities</i>				88,000
<b>Cash Flow from Investing Activities</b>				
Add:	Sale of equipment		27,000	
Less:	Purchase of equipment			
	(\$887,000-\$770,000+\$57,000)		(174,000)	
			(174,000)	
<i>Cash used by investing activities</i>				(147,000)
<b>Cash Flow from Financing Activities</b>				
Add:	Proceeds from issuance of loans		65,000	
	Proceeds from issuance of common stock		75,000	
			140,000	
Less:	Purchase of treasury stock	52,000		
	Payment of dividends	30,000	(82,000)	
			(82,000)	
<i>Cash provided by financing activities</i>				58,000
<b>Net Decrease in Cash</b>				(1,000)
Cash Balance, December 31 2019				33,000
Cash Balance, December 31 2020				32,000

### Question 3

A. Net profit margin

$$\begin{aligned} &= [(RMB139,213,000 / RMB1,911,974,000) \times 100\% \\ &= 7.28\% \end{aligned}$$

B. Current ratio

$$\begin{aligned} &= [(RMB1,622,801,000 - RMB908,477,000) / RMB554,295,000] : 1 \\ &= 1.29 : 1 \end{aligned}$$

The ratio is in a good shape. As the current ratio is greater than 1, it means that the company has the ability to meet short-term liabilities with its current assets.

C. Day's inventory outstanding

$$\begin{aligned} &= (RMB34,257,000 / RMB516,660,000) \times 365 \\ &= 24.20 \text{ days} \end{aligned}$$

T Co. may sell beverage as the term "Cost of food sold" is shown in the income statement instead of "Cost of goods sold".

D. Days' sales outstanding

$$\begin{aligned} &= RMB26,287,000 / (RMB1,911,974,000 / 365) \\ &= 5.02 \text{ days} \end{aligned}$$

The use of electronic payment system improves the collection of receivables as it provides more payment methods to credit customers. The ability to collect receivables increases.

E. Asset turnover

$$\begin{aligned} &= RMB1,911,974,000 / RMB1,622,801,000 \\ &= 1.18 \text{ times} \end{aligned}$$

In general, the higher the assets turnover ratio is better as the company is more efficient in generating revenue from its assets.

F. Debt ratio

$$\begin{aligned} &= (RMB554,295,000 + RMB168,101,000) / RMB1,622,801,000 \\ &= 0.45 \end{aligned}$$

G. Earning per share

$$\begin{aligned} &= RMB101,677,000 / 2,213,031,000 \\ &= \$0.05 \end{aligned}$$

Question 3 (Cont'd)

H. Price earning ratio

$$= \text{RMB}0.181 / \text{RMB}0.05$$

$$= 3.94 \text{ times}$$

I. Return on equity

$$= \text{RMB}101,677,000 / (\text{RMB}18,393,000 + \text{RMB}882,012,000)$$

$$= 0.11 \text{ times}$$

Question 5

A.

**Journal**

Date	Details	Dr	Cr
2020		\$	\$
	Cash (51,000 x \$3)	153,000	
	Ordinary share		51,000
	Paid-in capital in excess of par.		102,000
	To issue ordinary shares above par.		
	Treasury share (1,000 x \$9)	9,000	
	Cash		9,000
	To record a purchase of treasury share.		
	Cash (150 x \$9)	1,350	
	Treasury share		1,350
	To record a resale of treasury share.		
	Retained earnings (\$60,000 - \$35,000)	25,000	
	Dividend payable		25,000
	Declared a cash dividend		
	Dividend payable	25,000	
	Cash		25,000
	Paid cash dividend.		

B.

<b>Reported cash flow from financing activities</b>	\$
Proceeds from issuance of shares	153,000
Purchase of treasury share (\$9,000 - \$1,350)	(7,650)
Payment of dividends	(25,000)
<b>Cash provided by financing activities</b>	<u>120,350</u>