

ACCT 2111 2010-2011 suggested solution

Problem 1

	Bank		Book
Bal Sept 30	9,079	Bal Sept 30	8,967
Add deposit in transit	2,325	Add bank collection	2,000
	11,404		10,967
Less outstanding checks		Less correction to check No. 288	90
No. 279	527	non-sufficient fund - Notokey Company	995
No. 286	390	electronic fund transfer	45
No. 290	650		1,130
	1,567		
Adjusted Bank Balance	9,837	Adjusted Book Balance	9,837

Adjusting entries

	items	Accounts	Dr	Cr
(2)	Supplies expense		90	
	Cash			90
(5)	Cash		2,000	
	Note receivable			2,000
(6)	Accounts receivable - Notokey Company		995	
	Cash			995
(7)	Miscellaneous expense		45	
	Cash			45

Problem 3

(1)

Book value of Apartment Building 1

$$20,000,000 - (20,000,000 - 4,000,000)/16 \times 9.5$$

$$=10,500,000$$

(2)

Loss on sales of Apartment Building

$$10,500,000 - 8,500,000$$

$$=2,000,000$$

(3)

Date	Accounts	Dr	Cr
Dec-31	Depreciation expense	1,000,000	
	Accumulated depreciation - Apartment Building 1		1,000,000
Dec-31	Accumulated depreciation - Apartment Building 1	9,500,000	
	Loss on disposal of Apartment Building 1	2,000,000	
	Cash	8,500,000	
	Apartment Building 1		20,000,000

(4)

Date	Accounts	Dr	Cr
Dec-31	Depreciation Expense(35,000,000 X 1/10 X 2)	7,000,000	
	Accumulated depreciation - hotel building		7,000,000
Dec-31	Depreciation Expense(25,000,000-1,000,000)/10	2,400,000	
	Accumulated depreciation - Apartment Building 2		2,400,000

Problem 4

Part A

		CCS	
Date	Accounts	Dr	Cr
Apr-04	Treasury Stock (5,000 X 10) Cash	50,000	50,000
Jun-06	Machine Common Stock (10,000 X 5) paid-in capital in excess of par value - common stock	80,000	50,000 30,000
Jul-07	Cash Treasury Stock paid-in capital, Treasury stock	24,000	20,000 4,000
Nov-11	Retained Earnings $(365,000/5 - 5,000 + 10,000 + 2,000) \times 0.05 \times 10$ common stock dividend distributable	40,000	40,000
Dec-12	common stock dividend distributable common stock paid-in capital in excess of par value - common stock	40,000	20,000 20,000
Dec-30	Cash (3,000 X 8) paid-in capital, Treasury stock Retained Earnings Treasury Stock (3,000 X 10)	24,000 4,000 2,000	30,000

TCW

Date	Accounts	Dr	Cr
Feb-02	Cash	21,000	
	common stock		15,000
	paid-in capital in excess of par value - common stock		6,000
Dec-12	Retained Earnings	36,900	
	Dividend payable - preferred		25,600
	Dividend payable - common		11,300
Dec-31	Dividend payable - preferred	25,600	
	Dividend payable - common	11,300	
	Cash		36,900

Part B

(i)

CCS

$$47,850 / [(365,000 / 5 - 5,000 + 10,000 + 2,000) \times 1.05]$$

$$= 0.57$$

TCW

$$(43,600 - 160,000 \times 0.08) / 185,000 / 5 + 3,000$$

$$= 0.77$$

(ii)

- 2-for-1 stock split will increase the number of share by one fold
- The denominator will also be increased
- Eventually lead to a drop of EPS from 0.77 to 0.385

Problem 5

	Kuchen	Lamington	Purpose/for the evaluation of
Assets turnover	$14,400/15,225=0.95$	$15,775/20,775=0.76$	Profitability
Current ratio	$3,800/1,925=1.97:1$	$4,950/4,450=1.11:1$	Liquidity
Debt to Total Assets Ratio	$3,175/15,225=0.21:1$	$13,200/20,775=0.64:1$	Solvency
Inventory turnover	$9,700/1,250=7.76\text{times}$	$10,600/2,300=4.61\text{times}$	Asset management
Profit margin	$1,875/14,400=13\%$	$900/15,775=6\%$	Profitability
Receivable turnover	$14,400/1,700=8.47\text{times}$	$15,775/2,650=5.95\text{times}$	Asset management
Return on assets	$1,875/15,225=0.12$	$900/20,775=0.04$	Profitability
Return on shareholders' equity	$1,875/12,050=0.16$	$900/7,575=0.12$	Profitability
Time interest earned	$2,800/125=22.4\text{times}$	$2,175/875=2.49\text{times}$	solvency

1. Kuchen
2. Kuchen
3. It shows more immediate short term debt paying ability
4. Kuchen: $365 \times 1,250 / 4,700 = 47.04\text{days}$
Lamington: $365 \times 2,300 / 10,600 = 79.20\text{days}$
5. Kuchen. Issuing preference stock, common stock, long term leasing
6. Kuchen. Human capital, organizational structure, past credit rating.