ACCT2111 Introductory Financial Accounting

2018-2019 2nd Term

Suggested Solution

Section B

Problem 1

1)

East Company
Bank Reconciliation
31 January, 2019

BANK:	$	$
Balance, 31 January 2019		100,000
Add: Deposits in transit (1)		8,220
		108,220
Less: Outstanding cheques (2)		
No.201	2,000	
No.212	200	
No.216	6,100	(8,300)
Adjusted bank balance		99,920
BOOKS:		
Balance, 31 January 2019		85,250
Add: Note receivable collected by bank (3)	13,000	
Interest revenue (3)	2,880	
Interest revenue (4)	500	16,380
		101,630
Less: Charges for collecting note receivable (5)	100	
NSF cheque (6)	1,000	
Service charge (7)	250	
Correction of book error – understated our cheque no. 220 ($950 – $590) (8)	360	(1,710)
Adjusted books balance		99,920

2)

Journal

Date	Details	Dr	Cr
31 Jan 2019		$	$
(3)	Cash	15,880	
	Note receivable		13,000
	Interest revenue		2,880
(4)	Cash	500	
	Interest revenue		500
(5)	Bank service charges	100	
	Cash		100
(6)	Accounts receivable	1,000	
	Cash		1,000
(7)	Bank service charges	250	
	Cash		250
(8)	Electricity expense	360	
	Cash		360

Problem 2

1)

Journal

Date	Details	Dr	Cr
2018		$	$
	Cash	56,300,000	
	Sales revenue		56,300,000
	Cost of goods sold	32,000,000	
	Inventory		32,000,000

2)

Journal

Date	Details	Dr	Cr
2018		$	$
	Warranty expense ($56,300,000 x 0.8%)	450,400	
	Provision for warranty repairs		450,400
	Provision for warranty repairs	620,580	
	Inventory		214,930
	Cash ($620,580 – $214,930)		405,650

3) Estimated warranty liabilities = $2,845,000 + $450,400 – $620,580 = $2,674,820

Problem 3

1)

The cost of the equipment sold
= $106,000 – $69,000 – $19,000 + $7,000
= $25,000

2)

Fantasy Travel
Statement of Cash Flows
For the Year Ended 31 December 2018

Cash Flow from Operating Activities:		$	$	$
Net income				51,000
Add:	Depreciation expenses		19,000	
	Loss on sale of equipment		5,000	
	Decrease in accounts receivable		2,000	
	Increase in income tax payable		1,500	
	Decrease in inventory		12,000	
			39,500	
Less:	Increase in prepaid advertising	3,000		
	Decrease in accounts payable	2,000		
	Decrease in wages payable	3,500	(8,500)	31,000
Cash provided from operating activities				82,000
Cash Flow From Investing Activities				
Add:	Sale of equipment ($25,000-$7,000-$5,000)		13,000	
Less:	Purchase of long-term investment		(8,000)	
Cash provided by investing activities				5,000
Cash Flow From Financing Activities				
Less:	Payment of note payable		(11,000)	
	Purchase of treasury shares for cancellation		(13,000)	
	Payment of dividends		(60,000)	
Cash used in financing activities				(84,000)
Net Increase in Cash				3,000
Cash Balance, December 31 2017				9,000
Cash Balance, December 31 2018				12,000

Problem 4

1)

Fantasy Travel
Horizontal Analysis of Comparative Statement of Financial Position
December 31, 2017 and 2018

	2017	2018	Increase/(Decrease)	
ASSETS	$	$	Amount	Percentage
Cash	9,000	12,000	3,000	33.33%
Accounts receivable	30,000	28,000	(2,000)	(6.67%)
Inventory	78,000	66,000	(12,000)	(15.38%)
Prepaid advertising	12,000	15,000	3,000	25%
Long-term investments	32,000	40,000	8,000	25%
Equipment, net	106,000	69,000	(37,000)	(34.91%)
Total assets	267,000	230,000	(37,000)	(13.86%)
LIABILITIES AND STOCKHOLDERS' EQUITY				
Accounts payable	25,000	23,000	(2,000)	(8%)
Wages payable	6,000	2,500	(3,500)	(58.33%)
Income tax payable	3,000	4,500	1,500	50%
Note payable	20,000	9,000	(11,000)	(55%)
Share capital	118,000	105,000	(13,000)	(11.02%)
Retained earnings	95,000	86,000	(9,000)	(9.47%)
Total liabilities and stockholders' equity	267,000	230,000	(37,000)	(13.86%)

2)

- The largest contributor to the change in assets is Equipment. Both its dollar and percentage amount are the largest.
- The largest contributor to the change in total liabilities and equity is Note payable. It is the second largest amount in both dollar and percentage terms.

Problem 5

1)

Journal

Date	Details	Dr	Cr
2019		$	$
Jan 18	Cash	3,000	
	$1.5, non-cumulative preference shares		3,000
Feb 20	Cash (500 x $4.5)	2,250	
	Treasury shares, ordinary ($3 x 500)		1,500
	Paid-in capital from treasury shares		750
Apr 30	No entry		
July 15	Cash ($1.5 x 10,000)	15,000	
	Ordinary shares, $0.5 par ($0.5 x 10,000)		5,000
	Paid-in capital in excess of par, ordinary		10,000
Sept 30	Retained earnings	82,000	
	Dividends payable		82,000
Oct 15	No entry		
Oct 31	Dividends payable	82,000	
	Cash		82,000
Dec 31	Revenue	320,000	
	Expenses		199,000
	Retained earnings		121,000

2)

Shareholders' Equity	$
5%, $10 par, cumulative preference shares, 10,000 shares issued	100,000
No par, $1.5, noncumulative preference shares, 7,000 shares issued	48,000
Ordinary shares, $0.5 par, 146,600 shares issued ($68,300 x 2 + $10,000)	73,300
Paid-in capital in excess of par, ordinary ($341,500 + $10,000)	351,500
Paid-in capital from treasury shares	750
Retained earnings ($463,000 – $82,000 + $121,000)	502,000
Less: treasury shares, ordinary ($6000 – $1,500)	(4,500)
Total shareholders' equity	1,071,050

3)

Dividends allocated to:	$
5%, $10 par, cumulative preference shares (5% x 10 x 10,000 x 3)	15,000
No par, $1.5, noncumulative preference shares ($1.5 x 7,000)	10,500
Ordinary shares ($82,000 – $15,000 – $10,500)	56,500
Total dividends	82,000

Problem 6

1)

Journal

Details	Dr $	Cr $
Depreciation expense (W1)	80,750	
Accumulated depreciation – Truck No.1		80,750
Depreciation expense (W2)	40,560	
Accumulated depreciation – Truck No.2		40,560

2)

Journal

Details	Dr $	Cr $
Depreciation expense – Truck No.2 (W3)	180,000	
Accumulated depreciation – Truck No.2		180,000

3)

Journal

Details	Dr $	Cr $
Depreciation expense [$(540,000 – 180,000) x 1/3 x 4/12]	40,000	
Accumulated depreciation – Truck No.2		40,000
Accumulated depreciation – Truck No.2 ($40,000+$180,000)	220,000	
Truck No.3	600,000	
Gain on exchange of delivery truck		45,000
Cash		235,000
Truck No.2		540,000

Workings:

(W1): $\frac{\$800,000-\$120,000}{160,000}$ x 19,000 = $80,750

(W2): $\frac{\$540,000-\$20,000}{125,000}$ x 9,750 = $40,560

(W3): $\frac{1}{6}$ x 2 x $540,000 = $180,000