2004-2005
ACY1111 Suggested Solutions

Problem 1

Comparability states that accounting information is useful when it can be compared with other enterprises. To facilitate inter-company comparison, different companies should use the same accounting principles. Different companies may not necessarily use the same accounting principles. Financial information will be comparable as long as each company discloses the accounting method used.

Consistency means that a company uses the same accounting principles and methods from year to year to facilitate intra-company comparison. In contrast to comparability, company need to use the same accounting method continuously internally, unless there are justifiable reasons for change.

If consistency is fulfilled within every company, trend among companies will be easily comparable.

Problem 2

(a)

Shawshank Company
Bank Reconciliation
December 31, 2004

Cash balance per bank statement		$11,951.01
Add: Deposits in transit		967.00
		$12,918.01
Less: Outstanding checks		
No. 20	$587.50	
No. 23	1,687.50	$2,275.00
Adjusted cash balance per bank		$10,643.01
Cash balance per books		$8,736.01
Add: Error in recording check no. 18	$72.00	
Collection of note receivable (2,100 - 15)	2,085.00	$2,157.00
		$10,893.01
Less: NSF check		250.00
Adjusted cash balance per books		10,643.01

(b)

Journal

Date	Details	Dr. ($)	Cr. ($)
	Cash	72	
	Accounts payable		72
	Accounts receivable	250	
	Cash		250
	Service charge	15	
	Cash	2100	
	Interest revenue		60
	Note receivable		2055

Problem 3

(a)

Journal

Date	Details	Dr. ($)	Cr. ($)
	Accounts receivable	1,400,000	
	Sales		1,400,000
	Sales returns and allowances	50,000	
	Accounts receivable		50,000
	Cash	1,250,000	
	Accounts receivable		1,250,000
	Allowance for doubtful	35,000	
	Accounts receivable		35,000
	Accounts receivable	4,000	
	Allowance for doubtful		4,000
	Cash	4,000	
	Accounts receivable		4,000

(b), (c)

Journal

Items	Details	Dr. ($)	Cr. ($)
(b)	Bad Debts Expense Allowance for doubtful (1,400,000 - 50,000) x 2%	27,000	 27,000
(c)	Allowance for doubtful Bad Debt Expense 33,000 - 565,000 (W1) x 4%	10,400	 10,400

(W1)

Accounts Receivables

Bal. b/d	$500,000	Sales Returns and Allowances	$50,000
Sales	1,400,000	Cash	1,250,000
Bad Debts Recovered	4,000	Allowance for doubtful	35,000
		Cash	4,000
		Bal. c/d	565,000
	1,904,000		1,904,000

(d) The percentage of receivables basis produces a higher net income than the percentage of sales basis by 27,000 + 10,400 = 37,400.

(e) If a company uses percentage of receivable basis, a company may have revenue rather than expenses in estimating bad debts. The estimation for current year's bad debts may be lower than previous year's balance when the expected percentage of accounts receivable uncollectible drops, or the balance of account receivables significantly drops when compared with that of previous year.

Problem 4

(a)

	Straight line method($,000)		Double-declining method($,000)	
	Annual depreciation	Net book value	Annual depreciation	Net book value
Acquisition year	0	500	0	500
Year 1	90	410	200	300
Year 2	90	320	120	180
Year 3	90	230	72	108

Footnote 1:

Year 1 (500,000 - 50,000) / 5 = 90,000

Year 2 (500,000 - 50,000) / 5 = 90,000

Year 3 (500,000 - 50,000) / 5 = 90,000

Footnote 2:

Year 1 (500,000 - 50,000) /5 x 2 = 180,000

Year 2 (500,000 - 180,000) x 40% = 128,000

Year 3 (500,000 - 180,000 - 128,000) x 40% = 76,800

(b)

Journal

Items	Details	Dr. ($)	Cr. ($)
(i)	Cash	180,000	
	Accumulated depreciation - equipment	270,000	
	Loss on disposal	50,000	
	Equipment		500,000
(ii)	Cash	180,000	
	Accumulated depreciation - equipment	392,000	
	Equipment		500,000
	Gain on disposal		72,000

Problem 5

Journal

Date	Details	Dr. ($)	Cr. ($)
2001			
Jul-01	Cash	1,600,000	
	Common Stock		1,000,000
	Paid-in Capital in Exess of Par Value		600,000
Dec-15	Retained Earnings	540,000	
	Common Stock Dividends Distributable		300,000
	Paid-in Capital in Exess of Par Value		240,000
Dec-31	Income Summary	300,000	
	Retained Earnings		300,000
2002			
Jan-15	Common Stock Dividends Distributable	300,000	
	Common Stock		300,000
Jun-30	(Out of Syllabus)		
2003			
Mar-31	Accumulated Depreciation - Factory Machinery	16,000	
	Retained Earnings		16,000
Apr-16	Dividend Payable	80,000	
	Cash		80,000
Jun-30	Rent	22,000	
	Advertising Expense		22,000
Dec-31	(Out of Syllabus)		