

2007-2008
ACY2111 Suggested Solutions

Part II*Question 6*

General Journal

Date	Details	Dr. (\$'mil)	Cr. (\$'mil)
1	Plant, Property and Equipment	896	
	Cash		400
	Donated Capital		496
2	Cash	1619	
	Accumulated Depreciation	439	
	Plant, Property and Equipment (W1)		2058
3	Depreciation Expense (W2)	154	
	Accumulated Depreciation		154

4. During the early expansion stage, the company purchases a lot of new assets. If the manager switches to sum-of-digit-year method, there will be an increase in depreciation expense, thus net income will decrease and the company will hold less net fixed assets in balance sheet.

$$(W1) \$39616 - \$38454 + \$896 = \$2058$$

$$(W2) \$21741 - (\$22026 - \$439) = \$154$$

Question 7

Period 1:

(a)

General Journal

Date	Details	Dr. (\$)	Cr. (\$)
	Premium Expense (W3)	10200	
	Cash	17000	
	Inventory - Poster		6800
	Inventory - CD		20400

(b)

General Journal

Date	Details	Dr. (\$)	Cr. (\$)
	Premium Expense (W4)	6600	
	Estimated Premium Outstanding		6600

$$(W3) 340000/100 \times \$3 = \$10200$$

$$(W4) [(700000 \times 0.8 - 340000) / 100 \times \$3] = \$6600$$

Period 2:

(a)

General Journal

Date	Details	Dr. (\$)	Cr. (\$)
	Estimated Premium Outstanding	6600	
	Premium Expense (W5)	18900	
	Cash	42500	
	Inventory - Poster		17000
	Inventory - CD		51000

(b)

General Journal

Date	Details	Dr. (\$)	Cr. (\$)
	Premium Expense (W6)	1260	
	Estimated Premium Outstanding		1260

$$(W5) 850000/100 \times \$3 - \$6600 = \$18900$$

$$(W6) \text{ Total redemption expected} = (\$700000 + \$840000) \times 0.8 = \$1232000$$

$$\text{Total outstanding coupons} = 1232000 - 340000 - 850000 = 42000$$

$$\text{Estimated premium outstanding at the end of period 2} = 42000/100 \times \$3 = \$1260$$

END