ACT2111 Final Review

ACT2111 Teaching Team

Final Exam Details - Onsite

- **Date**
  - Sunday, 12 May 2024
- **Time**
  - 13:30-15:30
- **Venue**
  - Please check the information sent out by the Registry
- **Coverage**
  - Chapters 1-6, 8
  - Chapters 9-12, 14-15

Ch9: Non-current assets

- Depreciation: Three methods

  Straight-line method
  Units-of-activity method
  Declining-balance method

- Depreciation schedule

Barb's Florists

Year	Computation: Depreciable Cost	×	Computation: Depreciation Rate	=	Annual Depreciation Expense	End of Year: Accumulated Depreciation	End of Year: Book Value
2020	€12,000		20%		**€2,400**	€ 2,400	€10,600*
2021	12,000		20		**2,400**	4,800	8,200
2022	12,000		20		**2,400**	7,200	5,800
2023	12,000		20		**2,400**	9,600	3,400
2024	12,000		20		**2,400**	12,000	**1,000**

*Book value = Cost − Accumulated depreciation = (€13,000 − €2,400).

- Entries for the disposal of plant assets

Retirement

Accumulated Depreciation—Equipment	14,000	
Loss on Disposal of Plant Assets	4,000	
Equipment		18,000
(To record retirement of delivery equipment at a loss)		

Sale

Cash	16,000	
Accumulated Depreciation—Equipment	49,000	
Equipment		60,000
Gain on Disposal of Plant Assets		5,000
(To record sale of office furniture at a gain)		

- Intangible assets

Ch10&11: Liabilities

- Ch10 **Current** Liabilities
  - ✓ Notes Payable (interest payable)
  - ✓ Product Warranties
- Ch11 **Non-current** Liabilities
  - ✓ Bonds
    - ✓ Issuing a bond
    - ✓ Amortizing bond discount or premium
    - ✓ Redeeming a bond
  - ✓ Mortgage Notes
    - ✓ Installment payment
      = interest payment + principal payment
  - ✓ Bond pricing formula is NOT required!
    - ✓ It is just for your understanding
    - ✓ Bond prices and interest rates will be given

Bond issued at a discount

Interest Periods	(A) Interest to Be Paid (10% x €100,000)	(B) Interest Expense to Be Recorded (10.5348% × Preceding Bond Carrying Value)	(C) Discount Amortization (B) – (A)	(D) Unamortized Discount (D) – (C)	(E) Bond Carrying Value (€100,000 – D)
Issue date				€2,000	€ 98,000
1	€10,000	€10,324 (10.5348% × €98,000)	€ 324	1,676	98,324
2	10,000	10,358 (10.5348% × €98,324)	358	1,318	98,682
3	10,000	10,396 (10.5348% × €98,682)	396	922	99,078
4	10,000	10,438 (10.5348% × €99,078)	438	484	99,516
5	10,000	10,484 (10.5348% × €99,516)	484	0	100,000
	€50,000	€52,000	€2,000		

Dec. 31	Interest Expense	10,324	
	Bonds Payable		324
	Interest Payable		10,000

Interest Exp > Interest Payment | The difference is added to bonds payable

Bond issued at a premium

Interest Periods	(A) Interest to Be Paid (10% x €100,000)	(B) Interest Expense to Be Recorded (9.4794% × Preceding Bond Carrying Value)	(C) Premium Amortization (A) – (B)	(D) Unamortized Premium (D) – (C)	(E) Bond Carrying Value (€100,000 – D)
Issue date				€2,000	€ 102,000
1	€10,000	€ 9,669 (9.4794% × €102,000)	€ 331	1,669	101,669
2	10,000	9,638 (9.4794% × €101,669)	362	1,307	101,307
3	10,000	9,603 (9.4794% × €101,307)	397	910	101,910
4	10,000	9,566 (9.4794% × €100,910)	434	476	100,476
5	10,000	9,524* (9.4794% × €100,476)	476*	0	100,000
	€50,000	€48,000	€2,000		

Dec. 31	Interest Expense	9,669	
	Bonds Payable	331	
	Interest Payable		10,000

Interest Exp < Interest Payment | The difference is subtracted from bonds payable

Ch12: Equity

- Issuing Shares

```
Cash
    Share Capital—Ordinary
    Share Premium—Ordinary
```

- Buying Treasury Shares

```
Treasury Shares
    Cash
```

- Reissuing Treasury Shares

```
Cash                                          Price > Purchase cost
    Treasury Shares
    Share Premium—Treasury
```

```
Cash (800 × HK$70)                            Price < Purchase cost
Share Premium—Treasury
    Treasury Shares
```

Cash Dividends

Declaration

```
Cash Dividends
    Dividends Payable
```

Payment

```
Dividends Payable
    Cash
```

Closing entry

```
Retained Earnings
    Cash Dividends
```

- Cumulative preference shares
- Share Dividend vs Share Split

	Before Dividend
Equity	
Share capital—ordinary	NT$5,000,000
Share premium—ordinary	—
Total share capital	5,000,000
Retained earnings	3,000,000
Total equity	**NT$8,000,000**
Outstanding shares	**50,000**
Par value per share	**NT$100.00**

10% share dividend **vs** 2-for-1 share split

Ch14: Statement of cash flows

Company Name
Statement of Cash Flows
For the Period Covered

Step 1 **Cash flows from operating activities**		
(List of individual items)	XX	
Net cash provided (used) by operating activities		XXX
Step 2 **Cash flows from investing activities**		
(List of individual inflows and outflows)	XX	
Net cash provided (used) by investing activities		XXX
Step 3 **Cash flows from financing activities**		
(List of individual inflows and outflows)	XX	
Net cash provided (used) by financing activities		XXX
Step 4 **Net increase (decrease) in cash**		XXX
Cash at beginning of period		XXX
Cash at end of period		XXX
Note xx		
Non-cash investing and financing activities		
(List of individual non-cash transactions)		XXX

Operating (indirect method)

Information sources:
1) Income statement
2) Changes in current assets, current liabilities

Net income

+ Depreciation expense
+ Amortization expense

Noncash item

+ Loss on sale of assets
- Gain on sale of assets

Nonoperating item

- Increase in a current asset
+ Decrease in a current asset
+ Increase in a current liability
- Decrease in a current liability

Changes in current assets

Changes in current liabilities

= Net cash flows from operating activities

Operating (direct method):
Cash Received and Cash Paid

Investing

Information sources:
1) Changes in non-current assets
2) Additional information

Noncash

Additional information

Financing

Information sources:
1) Changes in non-current liabilities and equity
2) Additional information

Ch15: Financial analysis

- Horizontal analysis
- Vertical analysis
- Ratio analysis
  - Liquidity Ratios x 4
  - Solvency Ratios x 2
  - Profitability Ratios x 7
  - Hint: When the numerator is from the income statement and the denominator from the statement of financial position, the denominator needs to take the average ▶

Ratio	Formula	Purpose or Use
Liquidity Ratios		
1. Current ratio	Current assets / Current liabilities	Measures short-term debt-paying ability.
2. Acid-test (quick) ratio	(Cash + Short-term investments + Accounts receivable (net)) / Current liabilities	Measures immediate short-term liquidity.
3. Accounts receivable turnover	Net credit sales / Average net accounts receivable	Measures liquidity of accounts receivable.
4. Inventory turnover	Cost of goods sold / Average inventory	Measures liquidity of inventory.
Profitability Ratios		
5. Profit margin	Net income / Net sales	Measures net income generated by each currency unit of sales.
6. Asset turnover	Net sales / Average total assets	Measures how efficiently assets are used to generate sales.
7. Return on assets	Net income / Average total assets	Measures overall profitability of assets.
8. Return on ordinary shareholders' equity	(Net income − Preference dividends) / Average ordinary shareholders' equity	Measures profitability of owners' investment.
9. Earnings per share (EPS)	(Net income − Preference dividends) / Weighted-average ordinary shares outstanding	Measures net income earned on each ordinary share.
10. Price-earnings (P-E) ratio	Market price per share / Earnings per share	Measures the ratio of the market price per share to earnings per share.
11. Payout ratio	Cash dividends declared on ordinary shares / Net income	Measures percentage of earnings distributed in the form of cash dividends.
Solvency Ratios		
12. Debt to assets ratio	Total liabilities / Total assets	Measures the percentage of total assets provided by creditors.
13. Times interest earned	(Net income + Interest expense + Income tax expense) / Interest expense	Measures ability to meet interest payments as they come due.

Difficulties in homework and tutorial

Good luck in the Final !