



Final Exam Solution - Past paper.

CB2100 (City University of Hong Kong)

1-5 DACBC 6-10 CBBCA 11-15 ACBAB 16-20 DC DAC

21. (a) May 15, 2017 Dr. Accounts Receivable \$35,000
Cr. Service Revenue \$35,000

September 20, 2017 Dr. Cash \$10,000
Cr. Accounts Receivable \$10,000

December 31, 2017 Dr. Bad Debt Expense \$5,000
Cr. Allowance for Uncollectible Accounts \$5,000 ✓

January 12, 2018 Dr. Accounts Receivable \$60,000
Cr. Service Revenue \$60,000

March 20, 2018 Dr. Cash \$17,000
Cr. Accounts Receivable \$17,000

April 26, 2018 Dr. Allowance for Uncollectible Accounts \$8,000
Cr. Accounts Receivable \$8,000

October 20, 2018 Dr. Cash \$35,000
Cr. Accounts Receivable \$35,000

December 31, 2018 Dr. Bad Debt Expense \$8,000
Cr. Allowance for Uncollectible Accounts \$8,000 ✓

(b) 2017: Accounts Receivable \$25,000
less: Allowance for Uncollectible Accounts (5,000)
Net Realizable Value \$20,000

2018: Accounts Receivable \$25,000
less: Allowance for Uncollectible Accounts (5,000)
Net Realizable Value \$20,000

22. (a) Units Available for sale = $68 + 140 + 40 + 78 = 326$

Units Sold = $94 + 116 + 62 = 272$

Units in Ending Inventory = $326 - 272 = 54$

Cost of Goods Sold	Unit	Unit Cost	Cost
Sales from Beginning Inventory	68	\$15	\$1,020
Sales from March 5 Purchase	140	15.5	2,170
Sales from March 11 Purchase	40	16	640
Sales from March 16 Purchase	<u>24</u>	16.5	<u>396</u>
Total	<u>272</u>		<u>\$4,226</u>

Ending Inventory	Unit	Unit Cost	Cost
From March 16 Purchase	54	\$16.5	<u>\$891</u>

March 5, 2017 Dr. Purchase \$2,170
 Cr. Accounts Payable \$2,170
March 9, 2017 Dr. Accounts Receivable \$1,786
 Cr. Sales Revenue \$1,786
March 11, 2017 Dr. Purchase \$640
 Cr. Accounts Payable \$640
March 16, 2017 Dr. Purchase \$1,287
 Cr. Accounts Payable \$1,287
March 20, 2017 Dr. Accounts Receivable \$2,262
 Cr. Sales Revenue \$2,262
March 29, 2017 Dr. Accounts Receivable \$1,302
 Cr. Sales Revenue \$1,302.

(b) Item	Quantity	Cost per unit	Total Cost	NRV per unit	Total NRV	Lower of Cost & NRV
Bike A	15	\$16.5	\$247.5	\$16.5	\$247.5	\$247.5
Bike B	12	16.5	198	15	180	180
Bike C	13	16.5	214.5	20	260	214.5
Bike D	14	16.5	231	16	224	224
	<u>54</u>		<u>\$891</u>			<u>\$866</u>

March 31, 2017 Dr. Cost of Goods Sold \$25
 Cr. Inventory (end) \$25

(c)

Dix Store
Income Statement
for the month ended March 31, 2017

Sales Revenue	\$5,350
Cost of Goods Sold	<u>4,251</u>
Gross Profit	1,099
Selling and Administrative Expense	<u>200</u>
Operating Profit	899
Interest Expense	<u>100</u>
Income before income tax	799
Tax Expense	<u>100</u>
Net Income	<u>\$699</u>

23. (a)

Metaprobolize Ltd.

Depreciation Schedule - Double-Declining-Balance

<u>Calculation</u>			<u>Year-End-Amount</u>		
	<u>Beginning Book Value</u>	<u>Depreciation Rate</u>	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>	<u>Ending Book Value</u>
2017	\$100,000	2/5	\$40,000	\$40,000	\$60,000
2018	60,000	2/5	24,000	64,000	36,000
2019	36,000	2/5	14,400	78,400	21,600
2020	21,600	2/5	8,640	87,040	12,960
2021	12,960		7,960	95,000	5,000
			<u>\$95,000</u>		

$$(b) \text{ Depreciation Expense} = \frac{\text{Depreciation Amount}}{\text{Rest Service Life}} = \frac{\$36,000}{6-2} = \$9,000$$

Metaprobolize Ltd.

Depreciation Schedule - Straight-Line

Depreciation - ~~Line~~ Concave - Straight - Line

Calculation			Year-End - Amount				
	<u>Depreciation Cost</u>	\times	<u>Depreciation Rate</u>	$=$	<u>Depreciation Expense</u>	<u>Accumulated Depreciation</u>	<u>Ending Book Value</u>
2019	\$36,000		1/4		\$9,000	\$9,000	\$27,000
2020	36,000		1/4		9,000	18,000	18,000
2021	36,000		1/4		9,000	27,000	9,000
2022	36,000		1/4		9,000	36,000	-
					<u>\$36,000</u>		

(c) December 31, 2020

Dr. Cash	\$21,000
Dr. Accumulated Depreciation	\$82,000
Cr. Gain on disposal	\$100,000
Cr. Equipment	\$30,000

24. (a) April 30, 2018

Dr. Cash	\$300,000
Cr. Notes Payable	\$300,000

(b) December 31, 2018

Dr. Interest Expense	\$24,000
Cr. Interest Payable	\$24,000

(c) April 30, 2019

Dr. Notes Payable	\$300,000
Dr. Interest Payable	\$24,000
Dr. Interest Expense	\$12,000
Cr. Cash	\$336,000

25. <u>January 1, 2017</u>	Dr. Cash	\$200,000	
	Cr. Common Stock		\$200,000
<u>March 31, 2017</u>	Dr. Cash	\$600,000	
	Cr. Common Stock		\$20,000
	Cr. Additional Paid-in Capital		\$580,000
<u>April 11, 2017</u>	Dr. Cash	\$150,000	
	Cr. Preferred Stock		\$150,000
<u>June 30, 2017</u>	Dr. Treasury Stock	\$69,000	
	Cr. Cash		\$69,000
<u>September 12, 2017</u>	Dr. Cash	\$37,500	
	Cr. Treasury Stock		\$34,500
	Cr. Additional paid-in capital		\$3,000
<u>October 11, 2017</u>	Dr. Cash	\$20,000	
	Dr. Additional paid-in capital	\$3,000	
	Cr. Sec Treasury Stock		\$23,000
<u>December 10, 2017</u>	Dr. Dividends	\$8,625	
	Cr. Dividend Payable		\$8,625
<u>December 31, 2017</u>	Dr. Dividend Payable	\$8,625	
	Cr. Cash		\$8,625

$$26. (a) \text{ Receivable Turnover ratio} = \frac{\text{Net credit sale}}{\text{Average Accounts Receivable}} = \frac{\$304,400}{\$14,700} = 20.71 \text{ times}$$

$$\text{Average Collection Period} = \frac{365 \text{ days}}{\text{Receivable Turnover ratio}} = \frac{365 \text{ days}}{20.71 \text{ times}} = 17.62 \text{ days}$$

$$\text{Inventory turnover ratio} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}} = \frac{\$183,000}{\$19,300} = 9.51 \text{ times}$$

$$\text{Average Days in Inventory} = \frac{365 \text{ days}}{\text{Inventory turnover ratio}} = \frac{365 \text{ days}}{9.51 \text{ times}} = 38.38 \text{ days}$$

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} = \frac{\$8,200 + \$14,700 + \$19,300}{\$18,000 + \$6,800} = 1.70 \text{ to } 1$$

$$\text{Acid-test Ratio} = \frac{\text{Cash} + \text{Current Investments} + \text{Accounts Receivable}}{\text{Current Liabilities}} = \frac{\$8,200 + \$14,700}{\$18,000 + \$6,800} = 0.92 \text{ to } 1$$

$$\text{Debt to equity ratio} = \frac{\text{Total liabilities}}{\text{Stockholders' equity}} = \frac{\$18,000 + \$6,800 + \$70,000}{\$80,500 + \$24,000 + \$38,700} = 66.2\%$$

$$\text{Times interest earned ratio} = \frac{\text{Net Income} + \text{Tax Expense} + \text{Interest Expense}}{\text{Interest Expense}} = \frac{\$21,800 + \$10,000 + \$7,000}{\$7,000} = 5.54 \text{ times}$$

(b) Compared to industry average, Bush Limited performs well on liquidity. The weakness is the solvency. The solvency ratio implies high debt and bonds. Of course it also means high chance at the same time. In consideration of the good performance of liquidity and the gap between its solvency ratio and industry average is not that wide, we can be optimistic about this company.