**ACCT2111H Introductory Financial Accounting**
**2022-2023 2nd Term**
**Suggested Solution**

Question 1

A.

CharSiuBow, Inc.
Income Statement
For the Year Ended December 31, 2022

| | |
|---|---|
| Revenues | |
| Service revenue | $ 8,500 |
| Total Revenues | 8,500 |
| Expenses | |
| Rent expense | 300 |
| Utilities expense | 400 |
| Salary expense | 620 |
| Depreciation expense – equip. | 100 |
| Depreciation expense – furn. | 240 |
| Supplies expense | 100 |
| Total expenses | 1,760 |
| Net Income | $ 6, 740 |

B.
The expenses of the Company are reported by nature.
Normally, using analysis of expenses by function is better as it allows users to better understand costs relating to key functions.

C.
Total equity value = $6,890 + $6,740 - $4,500 = $9,130

- Share capital – $6,890
- Net income – $6,740
- Dividends – ($4,500)

D.

1. Total current assets = $6,100 + $1,500 + $300 = $7,900

- Cash – $6,100
- Accounts receivable – $1,500
- Supplies – $300

2. Total non-current assets = $2,400 + $6,950 = $9,350

- Equiment – $2,400 (2,500 - 100)
- Furniture – $6,950 (7,200 - 250)

3. Total liabilities = $6,100 + $620 + $1,400 = $8,120

- Accounts payable – $6,100
- Salary payable – $620
- Unearned service revenue – $1,400

E.

- Detect errors: checking whether the totals of debit and credit balances extracted from the ledger accounts are equal
- Facilitate the preparation of financial statements

F.

Firms can set up their trial balance at the end of the period.

G.

- A transacted is not journalized
- A correct journal entry is not posted
- A journal entry is posted twice

Question 2

A.

Journal

| Date | Account Titles and Explanation | Dr. $ | Cr. $ |
|---|---|---|---|
| Feb. 26 | Cash (5,500 * $6) | 33,000 | |
| | Share Capital (5,500 * $1) | | 5,500 |
| | Paid-in Capital in Excess of Par | | 27,500 |
| Jun. 10 | Retained Earnings | 320 | |
| | Dividends Payable (400 * $0.8) | | 320 |
| Jun. 28 | Dividends Payable | 320 | |
| | Cash | | 320 |
| Aug. 12 | Retained Earnings [(6,500 + 5,500)] * 20% * $7) | 16,800 | |
| | Ordinary Share (6,500 * 20% * $3 + 5,500 * 20% *$1) | | 5,000 |
| | Paid-in Capital in Excess of Par | | 11,800 |
| Oct. 15 | Treasury Shares-Ordinary (850 * $10) | 8,500 | |
| | Cash | | 8,500 |
| Nov. 25 | Cash (500 * $20) | 10,000 | |
| | Treasury Shares-Ordinary (500 * $10) | | 5,000 |
| | Paid-in Capital from Treasury | | 5,000 |

B.

Amount of retained earnings = $24,000 + $16,500 - $320 - $16,800 = $23,380

Amount of treasury shares = $8,500 - $5,000 = $3,500

Question 3

A.

Hong Kong Imports, Inc.
Statement of Cash Flows
Year Ended December XX, 20XX

| | $ | $ |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash receipts from: | | |
| Customers | 260,000 | |
| Bank: Interest | 4,600 | |
| TOTAL CASH RECEIPTS | | 264,600 |
| Cash payments to: | | |
| Employees: wages | 140,000 | |
| Bank: Interest | 9,000 | |
| Government: Taxes | 25,000 | |
| Various entities: Operating expense | 180,000 | |
| TOTAL CASH PAYMENTS | | 354,000 |
| Net cash flows used in operating activities | | (89,400) |
| | | |
| **Cash flows from investing activities** | | |
| Cash payments to: | | |
| Purchase equipment | | (15,000) |
| Net cash flows used in investing activities | | (15,000) |
| | | |
| **Cash flows from financing activities** | | |
| Cash receipts from: | | |
| Issuance of stock | 50,000 | |
| Borrowing at bank | 25,000 | |
| TOTAL CASH RECEIPTS | | 75,000 |
| Cash payments to: | | |
| Stockholders (dividends) | (5,500) | |
| Repay earlier loan | (10,000) | |
| TOTAL CASH PAYMENTS | | (15,500) |
| Net cash flows provided by operating activities | | 59,500 |
| | | |
| Total net cash flows for period | | (44,900) |
| | | |
| Beginning cash balance | | 105,000 |
| Total net cash flows for period | | (44,900) |
| Ending cash balance | | 60, 100 |

B.
Free cash flow
= - \$89,400 - \$15,000
= - \$104,400

Cash realization ratio
= - \$89,400 / \$45,000
= -1.99

The cash realization ratio of -1.99 indicates that for every \$1 of net profit, the company is experiencing a cash outflow of \$1.99 from its operating activities.

C.
The cash flow statement can report whether the entity has the ability to generate funds from operations, to raise funding from shareholders and creditors and how managers used cash generated to run the business. I am not happy with the management of the Company because its free cash flows are negative which means that no cash is available from operations after paying for capital expenditures and its cash realization ratio is negative which means that the Company has a bad ability to realize cash from profits.

Question 4

A.

LapSam Tong
Bank Reconciliation
December 31, 2021

| | | |
|---|---|---|
| **Bank** | | |
| Balance, December 31 | | $ 4,500 |
| Add: | | |
| 1. Deposit in transit | | 1,133 |
| | | 5,633 |
| Less: | | |
| 1. Outstanding cheques | | (2,500) |
| Adjusted bank balance | | $ 3, 133 |
| **Books** | | |
| Balance, December 31 | | $ 2,500 |
| Add: | | |
| 1. Interest revenue earned on bank balance | | 8 |
| 2. Bank collection of note receivable | | 900 |
| | | 3408 |
| Less: | | |
| 1. Service charge | $ 35 | |
| 2. Fee for bank collection of note receivable | 40 | |
| 3. NSF cheque | 200 | (275) |
| Adjusted bank balance | | $ 3, 133 |

B.

- Differences due to time lag in recording transactions
- Deposits in transit, outstanding checks, collections made by the bank, interest earned on checking/cash account, EFT receipts, non sufficient funds checks, bank service charge and EFT payments
- The company has recorded, but the bank has not, vice versa

C.

- Gives explanation for the differences between the book and bank balance
- Match the balances in an entity's accounting records for a cash account to the corresponding information on a bank statement

<u>Question 5</u>

A.
**CSL:**
Inventory turnover
= 430 / [(70 + 80) / 2]
= 5.73 times

Accounts receivables turnover
= (5,600 * 20%) / 300
= 3.73 times

Accounts payable turnover
= 430 / [(140 + 148) / 2]
= 2.99 times

Asset turnover
= 5,600 / [(2,270 + 45,000 + 2,380 + 42,968) / 2]
= 0.12

**HET:**
Inventory turnover
= 700 / [(40 + 50) / 2]
= 15.56 times

Accounts receivables turnover
= (2,200 * 20%) / [(320 + 300)] / 2
= 1.42 times

Accounts payable turnover
= 700 / [(876 + 780) / 2]
= 0.85 times

Asset turnover
= 2,200 / [(1,290 + 13,086 + 1,370 + 12,610) / 2]
= 0.16

B.

**Inventory turnover :**

- HET has a significantly higher inventory turnover of 15.56 times compared to CSL's 5.73 times.
- This suggests HET is more efficient in managing its inventory levels and turning over its stock.

**Accounts receivables turnover:**

- CSL has a higher accounts receivable turnover of 3.73 times compared to HET's 1.42 times.
- This indicates CSL is more efficient in collecting payments from its customers and managing its accounts receivable.

**Accounts payable turnover:**

- CSL has a higher accounts payable turnover of 2.99 times compared to HET's 0.85 times.
- This shows that CSL is paying its suppliers more promptly and maintaining better relationships with them.

**Asset turnover:**

- HET has a slightly higher asset turnover ratio of 0.16 compared to CSL's 0.12.
- However, both companies have relatively low asset turnover, suggesting potential opportunities to improve the efficiency of their asset utilization.

Overall, CSL appears to be more efficient in its working capital management, collections, and supplier payments compared to HET. While both companies have room for improvement in asset utilization, the stronger performance in the other key ratios suggests CSL is the more efficient operation.

C.

1. Accounts Receivables Management
- Implement efficient invoicing and billing processes to ensure timely customer payments
- Proactively follow up on overdue invoices and enforce late payment penalties
- Consider offering early payment discounts to incentivize prompt payments from customers

2. Accounts Payable Management
- Negotiate better payment terms with suppliers to optimize cash flow
- Closely monitor accounts payable aging and make timely payments to maintain good supplier relationships

3. Asset Utilization
- Conduct a comprehensive review of the company's asset portfolio identify underutilized or obsolete assets
- Dispose of or sell off assets that are no longer necessary for operations
- Invest in technology and equipment that can enhance productivity and operational efficiency

Question 6

I don't agree that the annual reports act as a communication tool. Auditors report in the annual reports provides independent professional opinion to shareholders about the company's financial statements, which present fairly, in all material respects about a company's financial condition. Also, the auditors report provides reasonable assurance to the users of financial statements about the condition of the company.