

The hong kong
university of science
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school essay sample



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Question 1

a) Identify three accounts on the balance sheet of Sun Hung Kai that represent tangible assets? Fixed assets, Investment properties, Properties for sale.

b) What are the differences among these accounts?

Fixed assets: Known as a non-current asset or as property, plant, and equipment, is a term used in accounting for assets and property which cannot easily be converted into cash. This can be compared with current assets such as cash or bank accounts, which are described as liquid assets.

In most cases, only tangible assets are referred to as fixed. Investment properties: Investment properties are land and/or buildings held under a leasehold interest to earn long-term rental income and/or for capital appreciation. These include completed properties and land under development for future use as investment properties. Investment properties are stated in the balance sheet at fair value and are valued at least annually by independent valuer. Increase or decrease in fair value of investment properties is recognized in the profit and loss account. Upon disposal of an investment property, any gain or loss on disposal is recognized in the profit and loss account. Properties for sale: It belongs to the commodity, be treated as an inventory account for real estate industry. It can bring sales revenue after be sold.

Question 2

a) What is purpose of amortization / depreciation? What is the difference between depreciation and amortization? Amortization: Amortization is the process of decreasing, or accounting for, an amount over a period.

Amortization is generally known as depreciation of intangible assets of a firm. Depreciation: Depreciation is a term used in accounting, economics and finance to spread the cost of an asset over the span of several years.

Difference between depreciation and amortization:

* Depreciation is used for fixed assets and last for more than one year. *

Amortization is used for intangible assets and expenses, normally last less than one year.

b) According to note 36, what is the total amount of depreciation and amortization for 2006? = 1035 million c) According to note 16, what is the depreciation expense for the year? = $4517 - 3679 = 838$ million

What is your best guess of the amortization expense?

= $1035 - 838 = 197$ million

Question 3

What is the amount of fixed assets reported on the balance sheet? On note 16, it is net book value at 30 Jun 2006 which is 17,173M which is in line with that amount on balance sheet = 17173 How do you reconcile this with note 16?

= Hotel properties + Property under development + other properties + Network Equipment + Toll Road + Other fixed assets = $2090 + 5950 + 1618 + 1783 + 4882 + 850 = 17173$ million

Question 4

a) What was the amount of fixed assets acquired in 2006?

2005 fixed assets - depreciation in 2006 + acquired assets in 2006 = 2006
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fixed assets, hence acquired assets = 2006 fixed assets - 2005 fixed assets + depreciation in 2006 = $17173 - 15447 + 838 = 2564$ million

What was the amount of cash paid to acquire these fixed assets? From statement of cash flow: = 1839 million

b) Are properties under development depreciated?—No

c) Assume that the rest of the newly acquired fixed assets have a useful life of 5 years and a residual value of 2 million HKD. Prepare a table showing the depreciation expense and net book value of these assets over its expected life assuming that a full year of depreciation is taken in fiscal year 2006 and that the company uses a straight-line basis. Note No. 16.

$$= (43 + 281 + 178 - 2) / 5 = 500 / 5 = 100 \text{ million}$$

Year	Net book value at beginning of year	Depreciation expense for the year	Accumulated depreciation	Net book value at end of year
2006	502	100	100	402
2007	402	100	200	302
2008	302	100	300	202
2009	202	100	400	102
2010	102	100	500	2

What is the journal entry to record depreciation in the first year? Dr:

Depreciation expense (expense account) 100 M HKD

Cr: Accumulated depreciation (asset deduction account) 100M HKD

d) Redo part c) assuming the company is using a double-declining-balance depreciation. Depreciation rate = $2 * (1/5) = 40\%$

The journal entry to record depreciation in the first year?

Dr: Depreciation expense (expense account) 200. 8M HKD

Cr: Accumulated depreciation (asset deduction account) 200. 8M HKD

Question 5

Assume that all the fixed assets of (4c) were sold one year after the acquisition for \$400 Million HKD. a) Calculate any gain or loss on this transaction assuming that the company uses straight-line depreciation.

Prepare the journal entry to record the transaction. Answer: loss is 2M

$$400 - (502 - 100) = -2 \text{ M}$$

Dr : Non operation loss (sale fixed asset) 2 M

Dr: Cash 400 M

Dr: Accumulated depreciation 100 M

Cr: Fixed asset 502 M

What is the total income statement impact of these assets over their life?

Consider both gain and loss on disposal as well as the total depreciation recorded on these assets. If the company does not sell fixed assets, it will have 500 depreciation expense totally. If there is gain or loss during the life time of the assets, then the total amount equals 500 plus gain less loss

b) Redo part (5a) but assuming that the company uses a double-declining-balance depreciation (as in 4d). Answer: gain 98. 8M

$$400 - (502 - 200. 8) = 98. 8 \text{ M}$$

Dr: Cash 400 M

Dr: Accumulated depreciation 200. 8 M

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Cr: Fixed asset 502 M

Cr : Non-operational gain (sale fixed asset) 98. 8 M

c) What was the journal entry made by Sun Hung Kai to record the sale of fixed assets in 2006? Treat all sales as one single sale.

* Proceeds from disposal of investment properties - 14 * Proceeds from disposal of associates and jointly controlled entities - 193 * Proceeds from disposal of long-term investments - 5663 * Proceeds from disposal of other fixed assets- 9

Total sales is $14+193+5663+9 = 5879$ M HKD