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Answer Above

ACC 335e: Module 3: Chapter 5: Problem-Solving Assignment

Problem # 1

PhreeWire Phones offers a number of plans to its mobile telephone customers. For example, a customer can receive a free phone when signing a 3-year contract for airtime and data that requires a monthly payment of \$100. Alternately, the customer could pay \$400 for the telephone when signing a 2-year contract requiring monthly payments of \$120.

Required: Determine the amount of revenue to be recognized each year under the two different scenarios. Assume that the fair value of the telephone is \$550 and the fair value of the airtime and data is \$650 per year.

Problem # 2

Art Attack Ltd. ships the accounting period, The Print Haus notifies Art Attack Ltd. that 70% of the merchandise has been sold for \$75,000. The Print Haus retains a 10% commission as well as \$3,400, which represent merchandise on consignment to The Print Haus, a retailer of fine art prints. The cost of the merchandise is \$68,000, and Art Attack pays the freight cost of \$2,400 to ship the goods to the retailer. At the end of advertising costs it paid, and remits the balance owing to Art Attack Ltd.

Required: Complete the journal entries required by each company for the above transactions.

Problem #1

(i) Amount of revenue under first plan for 3 years (When signing 3-years contract for airtime)

Revenue from telephone (free) \$0

Revenue from data (Monthly payment \$100) [36 months ~~X~~\$100) \$3600

Total revenue in 3 years from a customer under first plan=\$3600

So, amount of revenue each year from a customer under first plan=\$3600/3=\$1200

Fair Value of telephone, airtime and data in first year = \$550+\$650=\$1200

Fair value of airtime and data in second & third year=\$650

Note: In first year revenue under plan and fair value are same i.e., \$1200

In second and third year revenue under plan is greater than fair value by \$550(\$1200-\$650)

(ii) Amount of revenue under second plan for 2 years (When signing a 2 years contract)

Revenue from telephone \$ 400

Revenue from data (monthly payment \$100) [24 months~~×~~\$100] = \$2400

Total revenue in 2 years from a customer under second plan = \$2800(\$400+\$2400)

Amount of revenue in first year #1600(\$400+\$1200) and in second year \$1200

Note: In the first year revenue under second plan is greater than fair value by \$400(\$1600-\$1200) and in second year revenue under plan and fair value are same i.e., \$1200

Problem #2

Consignment Account

Particulars	Amount(\$)	Particulars	Amount(\$)
Goods sent on consignment	68,000	Print Haus	
Freight Cost	2,400	(Sales)	75,000
Print Haus			
-Commissions(75,000 × 10%)	7,500	Stock on consignment	21,120
-Advertising Cost	3,400		
Profit	14,820		
	96,120		96,120

Note: Stock on consignment:

Cost of unsold Stock \$20400

(68,000~~×~~30%)

Add: Proportionate expenses incurred by Art Attack Ltd (2,400~~×~~30%) 720

Stock on consignment **\$21,120**

**Art Attack Ltd
Journal Entries**

S.n.	Particulars	Debit	Credit
1.	Consignment account	68,000	
	Goods sent on consignment account		68,000
2.	Consignment account	2,400	
	Freight cost		2,400
3.	Print Haus	75,000	
	Consignment account		75,000
	(Sale made by the Print Haus)		
4.	Consignment account	7,500	
	Print Haus (For Commission)		7,500
5.	Consignment6 account	3,400	
	Print Haus (for Advertising Cost)		3,400
6.	Consignment Account	14820	
	Profit on Consignment		14820

**In the book of Print Haus
Art Attack Ltd**

particulars	Amount(\$)	Particulars	Amount(\$)
Bank (Advertising Cost)	3,400	Bank (Sales)	75,000
Commission	7,500		
Bank (Amount remit to Art Attack ltd.)	64,100		
	75,000		75,000

Journal Entries (Print Haus)

Sn.	Particulars	Debit	Credit
1.	Art Attack Ltd	3,400	

	Bank (Advertising Cost)		3,400
2.	Bank	75,000	
	Art Attack Ltd (sales)		75,000
3.	Art Attack Ltd	7,500	
	Commission		7,500
4.	Art Attack Ltd.	64,100	
	Bank (Amount remit)		64,100