

# Problem 8

ToGo Lighting Corporation sells customized stage lighting equipment for use in the entertainment industry. ToGo has a broad dealer network. One dealer, Boonlert-U-Thai, obtained a large contract with a ship builder to install an elaborate stage lighting system produced by ToGo. The new cruise ship was being promoted as the Broadway on the Water, and promised to offer the world's finest theatrical performances at sea.

In 20X2, ToGo sold the lighting equipment to Boonlert-U-Thai for RMB 22,500,000. Terms were 20% cash payment, and the balance in 75 days. The extended payment terms were necessary because Boonlert-U-Thai needed to collect from the ship builder before being able to pay ToGo.

Unfortunately, Boonlert-U-Thai experienced difficulties. It seems the floor of the stage was equipped with a sophisticated leveling system that caused it to move in counter-motion to the ship's rocking while at sea. This feature provided entertainers with a stable stage on which to perform. However, this attribute was not considered in the design of the lighting equipment. As a result, when the ship rocked, the beams from the lights moved all about on the stage. No one was happy, and the cruise ship delayed payment to Boonlert-U-Thai. Boonlert-U-Thai was not able to pay ToGo. All parties believed some resolution and payment would eventually occur, but the timing was uncertain.

- a) Prepare ToGo's journal entry to record the initial sale and down payment. Be sure to also record the cost of goods sold (assume the lighting equipment cost ToGo RMB 16,500,000 and the company uses a perpetual inventory system).
- b) After 75 days, Boonlert-U-Thai paid an additional RMB 3,000,000 and executed a 180-day, 6%, promissory note for the unpaid balance. Prepare ToGo's entry.
- c) ToGo's accounting year ended 60 days following the execution of the promissory note. Prepare the end-of-year adjusting entry.
- d) 180 days following the execution of the promissory note, all matters had been resolved and Boonlert-U-Thai paid the full amount due on the promissory note. Prepare ToGo's journal entry.

Worksheet 8

| GENERAL JOURNAL |          |       |        |
|-----------------|----------|-------|--------|
| Date            | Accounts | Debit | Credit |
| (a)             |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| (b)             |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| (c)             |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
| (d)             |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |
|                 |          |       |        |

## Solution 8

| GENERAL JOURNAL |   |            |            |
|-----------------|---|------------|------------|
| Date            | Accounts  | Debit      | Credit     |
| (a)             | Accounts Receivable   | 18,000,000 |            |
|                 | Cash  | 4,500,000  |            |
|                 | Sales   |            | 22,500,000 |
|                 | <i>To record the sale to Boonlert-U-Thai</i>  |            |            |
|                 | Cost of Goods Sold  | 16,500,000 |            |
|                 | Inventory   |            | 16,500,000 |
|                 | <i>To record the cost of the lighting system</i>  |            |            |
| (b)             | Cash  | 3,000,000  |            |
|                 | Notes Receivable  | 15,000,000 |            |
|                 | Accounts Receivable   |            | 18,000,000 |
|                 | <i>To record conversion of an account receivable to a note receivable</i>                                 |            |            |
| (c)             | Interest Receivable   | 150,000    |            |
|                 | Interest Income   |            | 150,000    |
|                 | <i>To record accrued interest<br/>(RMB 15,000,000 X 6% X 60/360 = \$100)</i>                              |            |            |
| (d)             | Cash  | 15,450,000 |            |
|                 | Interest Income   |            | 300,000    |
|                 | Interest Receivable   |            | 150,000    |
|                 | Notes Receivable  |            | 15,000,000 |
|                 | <i>To record the collection of the note plus interest (interest income RMB 15,000,000 X 6% X 120/360)</i> |            |            |