

Zhejiang Corporation sells customized stage lighting equipment for use in the entertainment industry. Zhejiang has a broad dealer network. One dealer, Min Chen, obtained a large contract with a ship builder to install an elaborate stage lighting system produced by Zhejiang. 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, Zhejiang sold the lighting equipment to Min Chen for RMB 30,000,000. Terms were 20% cash payment and the balance in 75 days. The extended payment terms were necessary because Min Chen needed to collect from the ship builder before being able to pay Zhejiang.

Unfortunately, Min Chen 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 Min Chen. Min Chen was not able to pay Zhejiang. All parties believed some resolution and payment would eventually occur, but the timing was uncertain.

- (a) Prepare Zhejiang'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 Zhejiang RMB 22,000,000 and the company uses a perpetual inventory system).
- (b) After 75 days, Min Chen paid an additional RMB 4,000,000 and executed a 180- day, 6%, promissory note for the unpaid balance. Prepare Zhejiang's entry.
- (c) Zhejiang's accounting year ended 60 days following the execution of the promissory note. Prepare the end-of-year adjusting entry.
- (d) After 180 days following the execution of the promissory note, all matters had been resolved, and Min Chen paid the full amount due on the promissory note. Prepare Zhejiang's journal entry.
- (e) Why did Zhejiang obtain a promissory note from Min Chen in lieu of the open account receivable?
- (f) Suppose the technical problems had been resolved early in 20X3 by Zhejiang contributing RMB 500,000 toward the cost of a gyroscopic lighting control system that eliminated the motion problem. How would this affect Zhejiang's profitability? Technically, when should this cost have been recognized?