

FUKIEN SECONDARY SCHOOL
S5 First Term Examination (2020-2021)
Business, Accounting and Financial Studies
(2 hours 15 minutes)

Date: 4th January 2021

Time: 10:30a.m. - 12:45p.m.

Name: _____

Class: _____ No.: _____

INSTRUCTIONS

1. This paper must be answered in English.
2. This paper carries 80 marks.
3. There are three sections in this paper. All questions are compulsory.
4. Write your answers in the answer book. Start **EACH** question (not part of a question) on a **NEW** page.

SECTION A (24 marks)

1. Townes Company is a trader selling chess sets which keeps the following six journals: Cash Book, Sales Journal, Purchases Journal, Returns Inwards Journal, Returns Outwards Journal and General Journal. For the following transactions, indicate the books of original entry to be recorded, and the accounts to be debited and credited. Write your answers for items (1) to (12) in the answer book.

Transaction		Book of original entry	Account to be debited	Account to be credited
e.g.	Bought chess sets on credit	Purchases Journal	Purchases	Trade payables
(i)	Sold chess sets on credit	(1)	(2)	(3)
(ii)	Received an electricity bill which would be paid in next financial year	(4)	(5)	(6)
(iii)	Chess sets taken by the owner as birthday gift of her daughter	(7)	(8)	(9)
(iv)	Returned damaged chess sets to credit supplier	(10)	(11)	(12)

(Total: 6 marks)

2. Shaibel started a business on 1 January 2020 with a capital of \$250 000. There are no proper accounting records kept for the business. Information on assets and liabilities on 31 December 2020 was confirmed as follows:

	\$
Motor vehicle	202 000
Prepaid expenses	3 300
Bank overdraft	2 400
Trade receivables	69 460
Trade payables	24 500
Rental deposit	16 000
Inventory	33 300

During the year ended 31 December 2020, Shaibel withdrew \$2 500 per month from the business to pay for his daily expenses.

REQUIRED:

- (a) Prepare a statement of affairs as at 31 December 2020. (4 marks)
- (b) Calculate the net profit/loss for the year ended 31 December 2020. (2 marks)
- (Total: 6 marks)

3. Borgov Company buys and sells a single product and uses the weighted average cost method for inventory valuation. Details of purchases and sales during January 2020 were as follows:

Date	Transactions	Litres	Purchase price (per litre) \$	Selling price (per litre) \$
Jan 1	Purchase	40	20.00	
8	Purchase	50	19.50	
15	Sale	100		36.00
18	Purchase	120	20.50	
31	Sale	60		38.00

The opening inventory as at 1 January 2020 included 70 litres with an average cost of \$19.00 per litre. Operating expenses for the month were \$800.

REQUIRED:

- (a) Compute the value of closing inventory as at 31 January 2020. Show your workings. (2 marks)
- (b) Prepare an income statement for the month ended 31 January 2020, showing clearly the values of opening inventory, purchases and closing inventory. (3 marks)
- (Total: 5 marks)

4. On 1 January 2017, Jolene Company bought a motor vehicle for \$200 000. It costed the company a further \$5 000 to paint the company's logo and name of the vehicle, \$8 000 for an annual third party insurance policy, \$4 000 for the number plate and \$2 000 for petrol.

The company estimated that the motor vehicle would have a useful life of 5 years and a residual value of \$35 000. The financial year of the company ends on 31 December.

REQUIRED:

- (a) Calculate the cost of the motor vehicle to be capitalised. (2 marks)
- (b) Calculate the annual depreciation on the motor vehicle for the years 2017, 2018 and 2019 if the company adopted the reducing balance method and a depreciation rate of 30% per annum. (2 marks)
- (c) Suppose the company decided to use the straight-line method of depreciation, prepare the necessary journal entries to record the disposal of the motor vehicle if it is sold for cash of \$50 000 on 1 January 2020. Narrations are not required. (3 marks)
- (Total: 7 marks)

SECTION B (36 marks)

5. The following information was extracted from the cash book of Harry Company for the month ended 30 April 2020:

Cash at bank					
2020		\$	2020	Cheque No.	\$
Apr 1	Balance b/d	9 620	Apr 4	Isla Co	#32468 748
6	Camp	1 670	7	Anya	#32469 800
9	Melling	4 425	15	Salaries	#32470 4 500
11	Marielle	6 870	18	Jacob	#32472 665
25	Ingram Co	425	29	Joy Limited	#32473 2 250
26	Taylor	5 540	30	Balance c/d	20 503
27	Thomas Limited	916			
		<u>29 466</u>			<u>29 466</u>

Harry Company received the following bank statement for the month of April 2020:

Date	Description	Withdrawal	Deposit	Balance
2020		\$	\$	\$
Apr 1	Balance b/d			16 220
6	Cheque #32468	748		15 472
8	Cheque deposited		1 670	17 142
9	Cheque #32469	800		16 342
9	Refer to drawer	1 670		14 672
10	Standing order – rent	4 500		10 172
11	Credit transfer		6 870	17 042
12	Cheque deposited		4 425	21 467
15	Bank charges	30		21 437
18	Cheque #32472	665		20 772
18	Cheque #32470	4 500		16 272
28	Cheque #13580	2 200		14 072
29	Cheque #32471	425		13 647
30	Cheque deposited		916	14 563
30	Interest income		40	14 603

Additional information:

- The difference in the opening balances on the cash at bank account and the bank statement was due to Cheque #32216, which was issued to a supplier, Mike Company, on 25 October 2019. It is the bank's practice not to honour cheques which are outstanding for more than six months.
- The bank mistakenly debited Harry Company's bank account on 28 April 2020 for a cheque drawn by Henry Company, another customer of the bank. The bank confirmed that an adjustment would be made in May 2020.
- On 25 April 2020, Cheque #32471 was issued to a supplier, Ingram Co, but it was recorded as a receipt in the books.

REQUIRED:

- Update the cash at bank account of Harry Company. (7 marks)
- Prepare a bank reconciliation statement as at 30 April 2020, commencing with the updated cash at bank balance. (4 marks)

(Total: 11 marks)

6. Alma, Beth and Benny were in partnership sharing profits and losses in the ratio of 1:6:3. The statement of financial position as at 31 December 2020 was as follows:

Alma, Beth and Benny Statement of financial position as at 31 December 2020			
		\$	\$
Assets			
Machinery, net			120 000
Office equipment, net			80 000
Inventory			45 000
Trade receivables			66 000
			<u>311 000</u>
Liabilities			
Trade payables	36 800		
Loan from Beth	35 000		
Bank overdraft	22 000		93 800
			<u>217 200</u>
Financed by			
Capital accounts			
- Alma	20 000		
- Beth	125 000		
- Benny	50 000		195 000
			<u>195 000</u>
Current accounts			
- Alma	(13 000)		
- Beth	24 000		
- Benny	11 200		22 200
			<u>217 200</u>

Due to decreasing profitability, the partners decided to dissolve the partnership on 1 January 2021. The relevant information is as follows:

- The machinery was taken over by Benny at 60% of its net book value.
- All office equipment was scrapped with a charge of \$12 500.
- Inventory was taken over by Beth to set off her loan to the partnership.
- All debts were collected except a bad debt of \$1 100 and cash discounts of \$1 200.
- Trade payables were fully settled at \$36 000.
- Alma is insolvent and it was agreed that her deficiency was to be borne by the remaining partner equally.

REQUIRED:

Prepare the following accounts:

- realisation account (5 marks)
 - the partners' capital accounts in columnar form, showing the necessary adjustments (5 marks)
 - cash at bank account (3 marks)
- (Total: 13 marks)

7. The following information has been extracted from the books of Watts Limited:

As at 1 January 2020	\$
Shareholders' equity	420 000
Retained profits	52 500
Current assets	169 000
Non-current assets	299 000
Current liabilities (note (i))	48 000
For the year ended 31 December 2020	\$
Credit purchases	325 000
Cash purchases	100 500
Credit sales	628 000
Cash sales	279 000
Increase in current assets	42 500
Decrease in total assets	7 500
Increase in trade payables	4 000

Additional information:

- (i) Watts Limited had trade payables only as its current liabilities.
- (ii) The retained profits as at 31 December 2020 amounted to \$86 400 and no profit appropriations were made during the year.
- (iii) It was discovered that a purchase invoice of \$12 000 had been omitted from the records of the books.

REQUIRED:

(a) Calculate (to two decimal places) the following ratios for Watts Limited in 2020:

- (i) total assets turnover (in times)
- (ii) current ratio
- (iii) net profit ratio
- (iv) trade payables repayment period (in months)

(8 marks)

Beltik Limited is in the same industry as Watts Limited but smaller in size. The following information had been extracted from the books of Beltik Limited as at 31 December:

	2020	2019
	\$	\$
Trade receivables	75 000	82 000
Trade payables	45 000	38 000
Inventory	36 000	44 000

In 2020, the trade receivables turnover was 8 times and inventory turnover was 10 times. All sales and purchases were made on credit.

REQUIRED:

(b) Calculate the following for Beltik Limited in 2020:

- (i) sales
- (ii) gross profit ratio (to two decimal places)

(4 marks)

(Total: 12 marks)

SECTION C (20 marks)

8. After closing all the nominal accounts and preparing the draft income statement, the ledger accounts of Harmon Limited as at 31 December 2020 are as follows:

	Dr. \$	Cr. \$
Cash at bank	649 000	
2% Debenture		600 000
General reserve		125 000
Inventory	680 000	
Office equipment, net	1 050 000	
Ordinary share capital		800 000
Retained profits, 31 December 2020		750 000
Share application		200 000
Trade receivables and trade payables	324 000	224 000
Unearned revenues		4 000
	<u>2 703 000</u>	<u>2 703 000</u>

Additional information:

- (i) Bad debts of \$60 000 was omitted from the books.
- (ii) The 2% debentures were issued on 1 April 2015 and the maturity date is 31 March 2021. Debenture interest for the quarter ended 31 December 2020 had not been paid or provided for.
- (iii) A credit supplier for \$10 000 had been paid twice and both payments had been posted to the ledgers. The refund for over-payment was received and used to buy an item of office equipment on 31 December 2020 but no entry had been made in the books.
- (iv) On 31 December 2020, the board of directors resolved to increase the general reserves to \$200 000. However, no entry had been made.
- (v) On 5 December 2020, 30 000 ordinary shares were issued at \$5 each. The application monies for 40 000 shares were received and credited to the share application account. Shares were allotted and rejected applicants refunded on 30 December 2020 but no entries had been made in the books.
- (vi) An item included in the closing inventory at cost of \$36 000 was later discovered obsolete and could only be sold for \$24 000.
- (vii) Goods costing \$42 000 was sent to a customer on a sale or return basis and it was recorded as a credit sale at a mark-up of 25%. Only one-third of those goods were sold by the customer as at 31 December 2020 and the acceptance of the remaining goods had not yet been confirmed.

REQUIRED:

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (9 marks)
- (b) Prepare for Harmon Limited the statement of financial position as at 31 December 2020. (8 marks)
- (c) Suggest, with a relevant accounting principle or concept, the appropriate accounting treatment in (vi) and provide an explanation. (3 marks)

(Total: 20 marks)

- END OF PAPER -