福建中學

FUKIEN SECONDARY SCHOOL

S6 Mock Examination (2020-2021)
Business, Accounting and Financial Studies Paper 2A
(2 hours 15 minutes)
Accounting Module

Date: 22nd January 2021
Time: 10:15 a.m. – 12:30 p.m.

Name: ______________________
Class: ______ No.: __________

This paper must be answered in English

INSTRUCTIONS

(1) There are three sections in this paper.

(2) All questions in Sections A are compulsory. You are required to answer two of three questions in Section B and one of the two questions in Section C.

(3) Write your answers in the answer book. Start **each question** (not part of a question) **on a new page**.

SECTION A (24 marks)
Answer **ALL** questions in this section.

1. The following are some accounting principles and conventions:

- ✧ Accrual
- ✧ Consistency
- ✧ Historical cost
- ✧ Matching
- ✧ Materiality
- ✧ Money measurement
- ✧ Objectivity
- ✧ Realisation
- ✧ Timeliness

Situations:

(i) Accounting information should be based on facts and be verifiable. Accountants should make professional judgement without bias.

(ii) Sales revenue should be recognised when goods were delivered, not when orders were received.

(iii) Depreciation expenses should be provided to non-current assets to link the cost with benefits derived.

(iv) Financial statement does not include small amount of stationery as non-current assets even though they were still in use at the end of the year.

(v) No adjustments were made even though non-current assets now cost a great deal more than they did when they were originally purchased.

REQUIRED:

(a) Referring to the above table, identify the most appropriate accounting principle or convention for each of the situations. (5 marks)

The managing director of a company believes that the company has good relationship with customers. He records this as an asset of $300 000, which equals to 1 month's sales revenue, in the statement of financial position of the company.

REQUIRED:

(b) State and explain the accounting principle or convention that is violated in this case. (3 marks)

(Total: 8 marks)

2. Michael Limited manufactures and sells three products, A, B and C. The budgeted selling prices and variable costs per unit of the three products in 2021 are as follows:

	Product A	**Product B**	**Product C**
	$	$	$
Selling price	210	280	370
Direct material	100	80	130
Direct labour ($50 per hour)	50	100	150
Variable production overheads	20	50	30

Annual fixed production overheads is budgeted at $1 210 000 and fixed administrative expenses is budgeted at $240 000.

Michael Limited computes its annual predetermined fixed production overhead absorption rate on the basis of direct labour hours.

The budgeted production unit for products A, B and C in 2021 is 20 000 units, 30 000 units and 10 000 units respectively.

REQUIRED:

(a) Calculate the predetermined fixed production overheads absorption rate for 2021. (2 marks)

(b) Give one possible reason why Michael Limited uses direct labour hour as the absorption base. (1 mark)

(c) Calculate the contribution margin per unit for products A, B and C respectively. (2 marks)

(d) In 2020, Michael Limited sold 12 000 Product A, 18 000 Product B and 6 000 Product C. Assuming that the ratio of the sales quantity of the three products will be maintained, calculate the sales quantity of each product in 2021 at breakeven point. (2 marks)

(Total: 7 marks)

3. Pritchett Company is preparing to commence production of a closet as its only product line in 2021. It uses the marginal costing system. The budgeted selling price and cost information for the product is given below:

	$/ unit
Selling price	80
Direct labour	15
Direct material	8

Additional information:

(i) The annual production overheads will be $100 000 if 20 000 units are produced each year, and $145 000 if 35 000 units are produced each year.

(ii) The budgeted production and budgeted sales for the year are 18 000 and 12 000 units respectively.

(iii) The administrative and selling expenses is budgeted at $200 000 per annum, including a 5% commission on sale.

REQUIRED:

(a) Use the high-low method to calculate the variable component and the fixed component of the production overheads in (i) respectively. (2 marks)

(b) Prepare for Pritchett Company the budgeted income statement for the year ended 31 December 2021 using the marginal costing system. Show separately the contribution and the closing inventory. (5 marks)

(c) Give one disadvantage of using the marginal costing system. (2 marks)

(Total: 9 marks)

Section B (36 marks)
Answer **TWO** questions in this section.

4. The following information was extracted from the cash book of Harmon Company for the month ended 31 May 2020:

Cash at bank

2020			$	2020			**Cheque No.**	$
May	1	Jolene	1 560	May	1	Balance b/d		3 240
	8	Borgov	2 680		6	Insurance	13689	5 600
	19	Alma Company	7 250		16	Townes	13690	4 220
	20	Electricity	3 900		22	Matt & Mike	13691	2 250
	28	Shaibel Ltd	3 360		28	Benny Co	13692	9 605
	31	Harry	680					
	31	Balance c/d	5 485					
			24 915					24 915

Harmon Company received the following bank statement for the month of May 2020:

Date		**Description**	**Withdrawal**	**Deposit**	**Balance**	
2020			$	$	$	
May	1	Balance b/d			3 240	O/D
	4	Cheque deposited		1 560	1 680	O/D
	9	Cheque deposited		2 680	1 000	
	11	Direct deposit		3 650	4 650	
	16	Direct debit	3 900		750	
	18	Cheque 13690	4 220		3 470	O/D
	22	Cheque deposited		7 250	3 780	
	24	Cheque 13691	2 250		1 530	
	26	Refer to drawer	7 250		5 720	O/D
	28	Dividend		300	5 420	O/D
	31	Interest	330		5 750	O/D

Additional information:

(i) A cheque issued for payment of insurance was returned by the bank on 12 May 2020 because of an invalid signature. No entry had been made for the returned cheque in the books.

(ii) The direct debit on 16 May 2020 shown on the bank statement was for settlement of an electricity bill. An inexperienced bookkeeper prepared a wrong entry for this transaction.

(iii) On 2 June 2020, the bank made a reverse entry for the direct deposit on 11 May 2020 and denoted as 'error correction'.

(iv) The cheque of $680 recorded in the cash at bank account on 31 May 2020 was related to a cheque dated 1 June 2020 drawn by a supplier for a refund.

REQUIRED:

(a) Update the cash at bank account of Harmon Company. (6 marks)

(b) Prepare a bank reconciliation statement as at 31 May 2020, commencing with the updated cash at bank balance. (4 marks)

(c) Explain what 'stale cheque' and 'direct debit' are respectively. (2 marks)

(Total: 12 marks)

5. Ted and Robin were partners sharing profits and losses equally. An extract of the account balances as at 31 December 2019 was as follows:

	$
Capital account	
- Ted	200 000
- Robin	285 000
Current account	
- Ted	22 000
- Robin	(13 500)
Equipment, net	263 000
Inventory	144 800
Trade receivables	96 980
Bank overdraft	14 600
Cash	3 320

On 1 January 2020, Ted retired and a new partner Lily was admitted with the following terms:

(i) Equipment was to be revalued at $250 000.

(ii) Inventories were to be revalued upwards by 40%.

(iii) Uncollectible trade debts were estimated to be $16 000.

(iv) The new profit and loss sharing ratio among Robin and Lily was 2:1 respectively.

(v) Ted agreed to withdraw $30 000 in cash and leave the balance as a loan to the partnership. Lily brought in enough cash to pay Ted, to clear the bank overdraft and to increase the cash balance to $150 000.

(vi) Goodwill was valued at $120 000. It was decided that no account is kept for goodwill.

(vii) Lily is entitled to an annual partner's salary of $46 000.

REQUIRED:

(a) Prepare the revaluation account. (2 marks)

(b) Prepare the partners' capital accounts in columnar form as at 1 January 2020, showing the retirement of Ted and admission of Lily. (7 marks)

The net profit before appropriation for the year ended 31 December 2020 amounted to $145 000. During the year, Lily received $20 000 cash as partner's salary.

REQUIRED:

(c) Prepare the partners' current accounts of Robin and Lily in columnar form. (3 marks)

(Total: 12 marks)

6. The summarised statement of financial position of Marcus Limited at 31 December 2019 is as follows:

	$
Non-current assets	1 050 000
Current assets	450 000
Current liabilities	(380 000)
Non-current liabilities – 5% Debentures	(500 000)
	620 000
200 000 Ordinary shares	400 000
Retained profits as at 31 December 2018	100 000
Net profit for the year 2019	120 000
	620 000

Additional information:

(i) The 5% debentures were issued on 1 January 2019. There was no movement in ordinary share capital during the year 2019.

(ii) At 31 December 2019, the market price per ordinary share of Marcus Limited is $6.3.

(iii) Total sales for the year 2019 amounted to $860 000.

REQUIRED:

(a) Calculate (to two decimal places) the following ratios for the year 2019:

(i) total assets turnover (in times) (1 mark)

(ii) gearing ratio (1 mark)

(iii) price-earnings ratio (2 marks)

(iv) returns on capital employed (2 marks)

(b) From the perspective of potential investors, state two limitations in using accounting ratios in assessing financial performance of a company. (2 marks)

Marcus Limited drafted a trial balance as at 31 December 2020, prior to the preparation of the closing entries. As the trial balance did not agree, a suspense account was opened. Subsequent investigation revealed the following errors and omissions:

(iv) Owing to an oversight, a cash discount has been allowed to a customer on the invoiced amount of $800 at the rate of 10%. A rate of 6% should have been adopted.

(v) A sales invoice was overcast by $650.

(vi) An electricity bill for December 2020 amounting to $600 was received on 14 January 2021. As the payment would be made in late January 2021, no accounting record had been made by the bookkeeper.

(vii) Bank account of $63 000 had been omitted in the trial balance.

REQUIRED:

(c) Prepare the necessary journal entries to correct the items (iv) to (vii). Narrations are not required.

(4 marks)

(Total: 12 marks)

SECTION C (20 marks)
Answer **ONE** question in this section.

7.
(A) Jake Company Limited has drafted the trial balance as at 31 December 2020 as follows:

	Dr.	Cr.
	$	$
Allowance for doubtful debts, 1 January 2020		30 000
6% debenture (issued on 1 September 2020)		350 000
Trade receivables and trade payables	645 000	330 000
Administrative expenses	258 000	
Inventory, 1 January 2020	425 000	
Retained profits, 1 January 2020		626 000
Selling and distribution expenses	268 000	
Purchases and sales	463 600	987 000
Motor vehicles	136 800	
Accumulated depreciation – motor vehicles, 1 January 2020		63 800
Ordinary share capital		600 000
Cash at bank	790 400	
	2 986 800	2 986 800

Additional information:

(i) Inventories at 31 December 2020 were classified into three categories as follows:

	Cost	**Net realisable value**
	$	$
Category A	136 000	120 000
Category B	258 000	400 000
Category C	87 000	105 000
	481 000	625 000

(ii) The valuation of inventory as at 31 December 2019 should be $368 000 instead of $425 000.

(iii) The monthly office rental was $14 000. During the year, 14 months' rental was paid and included as administrative expenses, of which one month's amount was paid as deposit.

(iv) Goods costing $36 000 was received from a supplier on a sale or return basis and no entries were made. Some of those goods were sold with an invoiced amount of $28 000 at a mark-up of 25% and the sale was properly recorded in the books. The remaining inventories were not included in the closing inventory in (i).

(v) On 1 October 2020, a motor vehicle costing $56 000 was traded in with a payment of $25 000. The motor vehicle traded out was purchased on 1 January 2017 for $80 000. No entries were made.

Non-current assets are to be depreciated at an annual rate of 20% by the reducing balance method, with a full year's charge in the year of purchase and none in the year of disposal.

(vi) Amy Limited, a customer owing $20 000 at 31 December 2020, was in financial difficulties and it was estimated that only 10% of the debts could be recovered. A general allowance for doubtful debts was to be made at 5% on the remaining trade receivables. Depreciation expenses, loss on disposal and increase in allowance for doubtful debts are classified as selling and distribution expenses.

REQUIRED:

(a) Prepare the income statement for the year ended 31 December 2020. (8 marks)

(b) Prepare the statement of financial position as at 31 December 2020. (8 marks)

(B) Rosa Company has an opportunity to undertake a one-year contract for Holt Company, for which production department has prepared the following cost statement:

	$
Material A (purchase cost)	20 000
Material B (purchase cost)	18 000
Direct labour (50 weeks at $300 per week)	15 000
Supervisor	35 000
Depreciation of machine	10 000
Variable overheads	2 000

Additional information:

(i) Material A is currently in stock but obsolete and could not be sold. It could be used as a substitute for Material W which would cost $8 000 to purchase a similar quantity, but would need processing at cost of $1 000 to make it usable.

(ii) Material B is currently in stock and has no further use but can be sold at current price of $20 000 owing to shortage.

(iii) The machine is idle. The company has recently received an offer of $6 000 for it.

(iv) The supervisor would be transferred from another department where he is currently a deputy supervisor at a salary of $30 000 per year. He would not be replaced.

REQUIRED:

Prepare a statement to calculate the total relevant cost of the contract. (4 marks)

(Total: 20 marks)

8.

(A) Victor is a sole proprietor of a retail shop. On 1 January 2020, Victor employed a cashier who suddenly left the company on 1 April 2020 without any notice. Victor found that all the cash in the cash register had disappeared together with some accounting records. He suspected that the cashier had misappropriated the money from the shop. After reviewing the books, the following information is available:

(i) Ledger balance as at:

	31 March 2020	1 January 2020
	$	$
Equipment	?	600 000
Accumulated depreciation – equipment	?	356 000
Inventory	?	68 000
Bank	?	68 500
Prepaid selling expenses	--	3 850
Accrued selling expenses	2 680	--
Accrued water and electricity	690	420
Trade payables	42 600	60 000
Cash	--	14 860

(ii) All payments were made through that bank account except payments for selling expenses and drawings of $9 000 per month which were paid out of the cash sales.

(iii) Purchases were made on credit only and sales were made in cash only. All goods were sold at a uniform margin of 60% except a sale to an employee for $6 000 cash. A 20% trade discount was allowed on that sale.

(iv) The extract of bank statement for the three months showed:

		$
Cash deposited		62 680
Payments:	Suppliers	72 600
	Water and electricity	14 850
	Equipment (acquired on 1 March 2020)	38 000

(v) A physical inventory count could only take place on 5 April 2020 and the cost of inventory on that date was $35 000. The purchases and sales during the period 1 to 5 April 2020 amounted to $6 000 and $7 160 respectively.

(vi) Selling expenses for the three months ended 31 March 2020 amounted to $28 360.

(vii) It is the company's policy to depreciate equipment at 30% per annum using the reducing balance method on a monthly basis.

(viii) After investigation, it was discovered that cash of $6 200 banked on 30 March remained uncredited and cheques for $28 580 issued to suppliers had not been presented for payment.

(ix) The insurance company agreed to compensate the business for 60% of the cash stolen.

REQUIRED:

(a) Prepare an income statement for the three months ended 31 March 2020, showing clearly the amount of cash loss. (10 marks)

(b) Prepare a statement of financial position as at 31 March 2020. (6 marks)

(B) Andrew Company produces Product X with the following selling price and unit variable cost:

	\$/ unit
Selling price	40
Direct material	12
Direct labour	10

Product X can be converted by further processing into Product X-plus, if financially worthwhile. A consultancy firm estimates that the annual demand for Product X-plus will be 15 000 units for three years if its selling price is \$75 per unit.

Three additional costs have to be incurred for the production of Product X-plus:

(i) Further processing cost of \$20 per unit.

(ii) A machine costing \$63 500 with a useful life of three years will be acquired for further processing. It is expected that the scrap value of the new machine at the end of its useful life is \$3 800.

(iii) A new factory with a monthly rental of \$12 000 will be rented.

Due to production constraints, production of each unit of Product X-plus would mean one less unit of Product X.

REQUIRED:

Prepare a statement to calculate the net benefit to produce and sell Product X-plus for three years and recommend whether Andrew Company should produce and sell Product X-plus. (4 marks)

(Total: 20 marks)

END OF PAPER