FUKIEN SECONDARY SCHOOL

S5 Final Examination (2020-2021)

Business, Accounting and Financial Studies Paper 2A

Accounting Module

(2 hours 15 minutes)

Date: 15th June 2021 Name: ____________________

Time: 10:15a.m. - 12:30p.m. Class: _________ No.: _____

INSTRUCTION

(1) This paper must be answered in English.

(2) There are three sections in the paper.

(3) There are 8 questions. All questions are compulsory.

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

(5) Supplementary answer sheets will be supplied on request. Write your name, class and class number on each sheet.

SECTION A (24 marks)

1. The financial year of Kim's business ends on 31 December. The business keeps the following books of original entries: Sales Day Book, Purchases Day Book, Sales Returns Day Book, Purchases Returns Day Book, Cash Book and General Journal.

   During December 2020, the following transactions took place:

   (i) Sold goods to Gilbert Company in cash of $7 200.

   (ii) Paid salary $60 000 by autopay.

   (iii) Issued and sent a debit note for goods returned for $220.

   (iv) Received a water bill of $600 for December 2020, which would be settled in cash in January 2021.

   (v) Purchased office equipment on credit for $79 000.

   (vi) Sold goods of $6 700 on credit to Kelly Company.

   (vii) Returned goods of $800 to Rachel Company.

   (viii) Bought goods of $1 900 on credit from Carman Company.

   REQUIRED:

   (a) Indicate which of Kim's books of original entry should be used to record transactions (i) to (viii) above in December 2020. (4 marks)

   (b) With reference to transaction (vi) above, state the accounts and the corresponding ledgers to be posted from the book of original entry. (2 marks)

   (Total: 6 marks)

2. The bank statement of Roger Chan, a sole trader, showed a credit balance of $56 000 on 31 October 2020. This did not agree with the cash at bank account balance, and the following transactions accounted for the difference:

(i) A cheque of $5 320 from a customer had been returned by the bank marked ‘Refer to drawer’ but no entry had been made in the cash at bank account.

(ii) A cheque dated 3 November 2020 for $3 000 received from a credit customer was entered in the cash at bank account but was not shown on the bank statement.

(iii) Dividend income of $320 was credited by the bank on 29 October but no entry had been made in the books.

(iv) A cash receipt of $2 945 from a customer in settlement of his account of $3 000 banked on 30 October 2020 but was not recorded by the bank until 1 November 2020.

(v) An incorrect direct deposit of $5 600 had been made by the bank on 30 October 2020. Roger was confirmed by the bank that an adjustment would be made in November 2020.

(vi) A cheque of $6 400, which was issued to a supplier on 5 October 2020, was recorded in the books, but had not been shown on the bank statement.

REQUIRED:

(a) Update the cash at bank account and prepare a bank reconciliation statement as at 31 October 2020.
(5 marks)

(b) List one possible reason for uncredited cheque. (1 mark)
(Total: 6 marks)

3. The following financial information relates to Andrew Limited:

Income Statement for the year ended 31 December 2020 (extract)

	$
Profit before tax	360 000
Less: Profits tax	45 000
Profit after tax	315 000

Statement of financial position as at 31 December 2020 (extract)

	$
Equity	
400 000 Ordinary shares	2 000 000
6% Preference shares	800 000
Retained profits	480 000
	3 280 000
Non-current liabilities	
5% Debentures	500 000
	3 780 000

At 31 December 2020, the market price per ordinary share of Andrew Ltd was $8.5. Dividend paid on the ordinary share amounted to $0.50 per share in 2020. The 6% preference shares were issued in 2015 and preference share dividend for 2020 had been declared and paid.

REQUIRED:
Calculate (to two decimal places) the following accounting ratios for the year 2020:

(a) dividend cover for ordinary shares (in times) (2 marks)

(b) price-earnings ratio (in times) (2 marks)

(c) gearing ratio (2 marks)
(Total: 6 marks)

4. Eric Limited had the following information for preparing the 2021 budget for Product A:

Direct material	6 kg per unit at $5.5 per kg
Direct labour	0.25 hours per unit at $40 per hour

In the production process, only the following four types of manufacturing overheads are incurred. Each overhead type demonstrates different cost behaviour. The maximum production capacity is 48 000 units. Information relating to manufacturing overheads at different level of production was shown as follows:

Level of production (units)	8 000	16 000	24 000	32 000	40 000	48 000
Manufacturing overheads	$	$	$	$	$	$
- Type A	25 000	25 000	25 000	50 000	50 000	50 000
- Type B	16 400	30 800	45 200	59 600	74 000	88 400
- Type C	12 800	25 600	38 400	51 200	64 000	76 800
- Type D	20 000	20 000	20 000	20 000	20 000	20 000

REQUIRED:

(a) Identify the cost behaviour for each of the four types of manufacturing overheads. (2 marks)

(b) Prepare a statement to calculate the manufacturing overheads at 80% of maximum production capacity, showing clearly the amount of each overhead type. Show your workings. (3 marks)

(c) Calculate the total amount of conversion cost at 80% of maximum production capacity. (1 mark)

(Total: 6 marks)

SECTION B (36 marks)

5. Alex, Bessie and Dickson have been in partnership sharing profits and losses in the ratio of 2:1:2, the balances of their capital accounts as at 1 January 2020 were $490 000, $220 000 and $550 000 respectively. On the same date, Alex retired with the following details:

   (i) Goodwill was to be valued at $180 000. All other assets were revalued downwards by $62 000. No goodwill account was to be maintained in the books.

   (ii) Bessie and Dickson were to share profits and losses equally. Dickson is entitled to an annual salary of $56 000 and Bessie is guaranteed a share of profits of not less than $4 000 per month.

   (iii) Interest on capital would be allowed at 5% per annum.

   (iv) Bessie was to inject cash into the new partnership to equal Dickson's capital account balance.

   (v) The balances of the current accounts of Alex, Bessie and Dickson on 1 January 2020 were $1 800 (credit), $28 000 (credit) and $2 200 (debit) respectively.

   (vi) $300 000 of the amount due to Alex would be left as a long-term loan to the partnership. The balance was to be paid on his retirement date.

   REQUIRED:

   (a) Prepare the partners' capital account in columnar form, showing the retirement of Alex. (5 marks)

   (b) Suppose the new partnership's net profit for the year ended 31 December 2020 was $200 000. Prepare the appropriation account of the new partnership for the year ended 31 December 2020. (3 marks)

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

   (d) State any two items, apart from those appearing in (c) above, that would be recorded in a partner's current account. (1 mark)

   (Total: 12 marks)

6. Yuki Company drafted a trial balance as at 31 December 2020, prior to the preparation of closing entries. As the trial balance did not agree, a suspense account was opened. The following errors were subsequently discovered:

(i) Discounts allowed of $560 had been credited to the discounts received account as $650.

(ii) The returns inwards day book was undercast by $780.

(iii) Goods of $3 500 received on a sale-or-return basis was recorded as a credit purchase as $350 in the books. Yuki Company had not accepted those goods as at 31 December 2020.

(iv) Bad debts of $4 600 had not been recorded in the books.

(v) A customer placed a purchase order of $5 000 on 30 December 2020. As he had been a loyal customer, the accountant recorded the order as credit sales immediately. The goods were sent to the customer on 5 January 2021.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (6 marks)

(b) Identify and explain the accounting principle or concept that has been violated in (v) above. (3 marks)

On 1 January 2021, an old machine was traded in for a new model at a loss of $5 600. The old machine had a cost of $56 000 and accumulated depreciation of $32 000 on that date. In respect of the trade-in, the company paid $125 000 for the new machine, $8 000 for an annual insurance for operating the new machine, $40 000 for an engine to enhance its productivity, $6 000 for its installation and $9 000 to train employees to operate the new machine.

REQUIRED:

(c) Prepare a statement to calculate the cost of the new machine above. (3 marks)

(Total: 12 marks)

7.

(A) Moray Company plans to sell 80 000 units of its single product in 2022, at a selling price of \$25 per unit. Using the existing production process, fixed cost and net profit for 2022 are expected to be \$420 000 and \$540 000 respectively.

The company is considering a change to its production process. The change would increase the fixed cost by \$80 000 in 2022 and reduce the variable costs to \$10 per unit. The selling price will remain constant regardless of production process. Production capacity in both the existing and changed processes would be 80 000 units in 2022.

REQUIRED:

(a) For the existing process, calculate for 2022 the budgeted:

(i) breakeven point (in units) (2 marks)

(ii) margin of safety (as a percentage to two decimal places) (1 mark)

(b) Advise management, using supporting calculations, whether to change the production process if the sales are 80 000 units in 2022. (2 marks)

(B) Gabriel Company uses a plant-wide predetermined production overheads absorption rate based on direct labour hours. It planned to produce two products, 'DM1' and 'DM2' in 2020. The budgeted production information on the two products is as follows:

	DM1	DM2
Annual production	60 000 units	80 000 units
Direct labour hour per unit	$\frac{2}{3}$ hour	$\frac{3}{4}$ hour
Machine hour per unit	$\frac{1}{10}$ hour	$\frac{1}{8}$ hour

The budgeted cost information for Gabriel Company in 2020 is as follows:

	\$
Total material cost	683 000
Direct material cost	625 000
Direct labour cost	3 650 000
Indirect labour cost	600 000
Supervisors' salary	1 120 000
Depreciation of machinery	60 000

The actual production overheads for 2020 were \$1 850 000 and the actual number of direct labour hours was 105 000 hours.

REQUIRED:

(c) (i) Calculate (to two decimal places) the predetermined production overheads absorbed per unit of DM1 in 2020. (3 marks)

(ii) State the reason for using the existing absorption base to calculate its predetermined production overheads absorption rate. (1 mark)

(d) (i) Calculate the under- or over-absorption of production overheads for 2020. (2 marks)

(ii) State the accounting treatment for the under- or over-absorption of production overheads calculated in (d) (i). (1 mark)

(Total: 12 marks)

SECTION C (20 marks)

8. William is a wholesaler for toys. In a burglary in December 2020, he lost some inventory as well as many of his accounting records. After a careful investigation, the following information is available:

(i) Some account balances of the business as at 31 December were as follows:

	2020	2019
	$	$
Motor vehicles	220 000	280 000
Accumulated depreciation – motor vehicles	?	126 000
Trade receivables	65 800	52 000
Trade payables	37 000	22 000
Inventory	1 200	36 000
Prepaid rent and rates	14 200	12 800
Accrued wages	3 200	2 400
Cash at bank	?	36 000
Allowance for doubtful debts	?	4 000

(ii) All sales and purchases were made on credit. All sales were made at a gross profit margin of 40%, except for obsolete items costing $6 000 which were sold at 60% off normal selling price.

(iii) All receipts and payments were made through the bank account. The bank transactions summarised from bank statements during the year were:

	$
Receipts from customers	208 000
Payments to suppliers	146 000
Wages	68 000
Rent and rates	46 000
Proceeds from sale of motor vehicle	32 000

(iv) It was confirmed that the insurance company would pay 70% of the inventory stolen in 2021.

(v) It is estimated that 5% of the trade receivables as at 31 December 2020 was doubtful.

(vi) Rent and rates amounting to $6 400 were paid for William's personal accommodation.

(vii) Goods of $4 500 was returned by customers.

(viii) It was discovered that cheques for $7 900 drawn on the suppliers had not been presented and cheques for $4 200 received from customers had not been credited by the bank.

(ix) A motor vehicle, which was purchased in 2017, was disposed of on 30 June 2020. No other additions and disposals of motor vehicles were made in 2020.

The company provides depreciation at a rate of 20% per annum on the net book value of its non-current assets, with a full year's charge in the year of purchase and none in the year of disposal.

REQUIRED:

(a) Prepare an income statement for the year ended 31 December 2020, showing clearly the amount of inventory loss. (12 marks)

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

(Total: 20 marks)

- END OF PAPER -