FUKIEN SECONDARY SCHOOL
S5 First Term Uniform Test (2021-2022)
Business, Accounting and Financial Studies
(1 hour and 30 minutes)

Date: 9th November 2021 Name: ____________________
Time: 10:30a.m. – 12:00noon Class: _________ No.: _____

INSTRUCTION

(1) This paper must be answered in English.

(2) There are 5 questions. All questions are compulsory.

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

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

1. Purple Co started its business on 1 January 2021, selling one type of goods. The business had the following transactions during its first year of operation:

Date	*Units purchased*	*Price per unit*	*Date*	*Units sold*	*Price per unit*
2021		$	2021		$
Jan 3	60	280	Apr 10	50	650
Apr 8	120	305	Jun 8	80	680
Sep 21	60	330	Nov 16	90	720

On 31 December 2021, an accident occurred in Purple Co's office, and five units of goods were destroyed.

Required:

(a) Based on the above figures, calculate the closing inventory of Purple Co at 31 December 2021 using the weighted average cost method. (5 marks)

(b) Explain the term 'abnormal inventory loss'. (1 mark)

2. Green Co was not able to carry out an inventory count at the year-end date of 31 March 2021. Instead the inventory count took place at the close of business on 8 April 2021. The inventory was valued at cost of $278 000.

The following additional information was available:

(i) The net realisable value of an inventory item costing $3 240 was estimated to be $3 420.
(ii) It was found that goods included in the inventory valuation at $12 400 had mistakenly been valued at selling price.
(iii) Purchases made and received (all on credit) during the period 1 April 2021 to 8 April 2021 totalled $6 900.
(iv) Included in the purchases in (iii) was an amount of $500 for carriage wrongly charged by a supplier.
(v) Sales during the same period totalled $20 000.
(vi) Returns inwards of $3 000 were made on 4 April 2021.
(vii) An inventory sheet used in inventory valuation had been overcast by $2 600.
(viii) Goods costing $2 360 (bought in December 2020) were accidentally damaged during the inventory count. They could not be sold and were written off in inventory valuation.
(ix) An item of inventory with a normal selling price of $1 200 was obsolete in March and could only be sold for $700.
(x) The uniform mark-up was 60% on cost.

Required:

Prepare a statement to calculate the value of inventory as at 31 March 2021. (6 marks)

3. State and briefly explain which accounting concept or principle was applied or violated in each of the following cases.

(a) On 31 December 2020 (the last day of the financial year), a company received a very large order from a customer. The goods were to be delivered a month later. The company included this as sales revenue for 2020. Was it correct to do so? (3 marks)

(b) In January 2020, 20 of the salesmen working for T Lee Ltd were each given 1 000 business cards. These cards cost $100 per person and would be used up over three years. The accountant treated this as an expense for the year ended 31 December 2020. Why did he do so? (3 marks)

(c) A company bought a new delivery van that cost $200 000 in early 2020. This van had an estimated useful life of five years. Should the cost of the delivery van be wholly recognised as an expense in 2020? (3 marks)

4. The trial balance of Yellow Ltd as at 31 December 2020 is as follows:

Yellow Ltd
Trial Balance as at 31 December 2020

		Dr($)	*Cr($)*
Ordinary share capital			800 000
6% debentures (repayable in 2025)			200 000
Buildings, at cost		800 000	
Furniture and fixtures, at cost		116 300	
Motor vehicles, at cost		102 000	
Accumulated depreciation:	Buildings		27 000
	Furniture and fixtures		34 260
	Motor vehicles		51 400
Bank		1 180 000	
Trade receivables and trade payables		419 110	524 300
Allowance for doubtful debts			73 443
Purchases and sales		710 866	2 353 887
Carriage inwards		69 040	
Returns		52 000	3 800
Inventory as at 1 January 2020		171 052	
Salaries and wages		334 992	
Rent and rates		372 400	
Rental income			200 000
Interim ordinary dividend		40 000	
Bank charges		500	
Directors' remuneration		380 000	
General reserve			281 000
Retained earnings			199 170
		4 748 260	4 748 260

The following information was also available on 31 December 2020:

(i) Inventory as at 31 December 2020 amounted to $122 599.

(ii) Rent of $1 000 was prepaid as at 31 December 2020.

(iii) Staff salaries of $130 500 for December 2020 would be paid on 1 January 2021. No accounting entry was made for this amount in December 2020.

(iv) The staff canteen operator owed the company rent of $100 000. No record had been made in the books.

(v) On 1 July 2020, a motor vehicle, which was purchased on 1 April 2018 for $20 000, was destroyed in an accident. The company would not receive insurance compensation on the car. No entries had been made in the books in respect of this accident.

(vi) Depreciation to be charged: Buildings: 9% per annum on cost
Furniture and fixtures: 20% per annum on net book value
Motor vehicles: 20% per annum on net book value

(vii) On 1 November 2020, the company received applications for 100 000 ordinary shares at $3 each, which were fully payable on application. The shares were issued two weeks later. No entry had been made in respect of the applications for and allotment of shares.

(viii) A trade debtor had been declared bankrupt and was unable to repay his debt of $34 000. The allowance for doubtful debts was to be kept at 10% of trade receivables.

(ix) Managers were entitled to a bonus equal to 25% of the company's net profit after their bonus had been deducted. This amount was to be paid together with the December 2020 staff salaries.

(x) The applicable profits tax rate was 20%.

(xi) The board of directors decided to transfer $19 000 to the general reserve.

Required:

(a) Prepare an income statement for the year ended 31 December 2020, showing all the necessary items in appropriation account. (20 marks)

(b) Prepare a statement of financial position as at the same date. (13 marks)
(Calculations to the nearest dollar)

5. Given the following information of Black Ltd as at 31 December:

	2018	*2019*	*2020*
	$	$	$
Short-term bank loan (to be repaid within one year)	—	90 000	50 000
Bank overdraft	—	—	15 000
Cash	—	53 240	600
Bank	10 000	38 420	—
Retained profits	63 426	114 400	159 264
8% debentures (payable on 1 January 2030)	100 000	100 000	150 000
Trade payables	—	52 360	60 240
Trade receivables	44 712	42 000	70 000
Ordinary shares issued at $2 each, fully paid	150 000	150 000	150 000
Furniture and fittings, net	102 730	225 880	238 344
Motor vehicles, net	50 000	90 000	200 000
Inventory	105 984	57 220	75 560

Additional information:

(i) All purchases and sales transactions were made on credit.

(ii) No profits tax or dividends were paid during the three years.

(iii) In 2019 and 2020, sales amounted to $818 622 and $1 126 696, respectively. The gross profit was $115 332 for 2019 and $276 230 for 2020.

(iv) The cheque payment of $10 500 for bank loan interest on 31 December 2020 had been omitted from the books.

Required:

(a) Calculate (to two decimal places) the following ratios for 2019 and 2020:

(i) Working capital ratio (2 marks)
(ii) Liquid ratio (2 marks)
(iii) Inventory turnover (2 marks)
(iv) Trade receivables turnover (2 marks)
(v) Gross profit ratio (2 marks)
(vi) Net profit ratio (2 marks)
(vii) Return on capital employed (4 marks)
(viii) Earnings per share (2 marks)
(ix) Gearing ratio (2 marks)

The following industry averages for 2020 are given below:

Gross profit ratio	32%
Net profit ratio	22%
Return on capital employed	26%
Current ratio	3 : 1
Liquid ratio	1.6 : 1
Inventory turnover	24 times

(b) Based on the information above and your answers in part (a):

(i) Briefly comment on the profitability of Black Ltd for 2020. (2 marks)
(ii) Briefly comment on the liquidity of Black Ltd for 2020. (2 marks)
(iii) Suggest two reasons for the difference in inventory turnover between Black Ltd and the industry average. (2 marks)

END OF PAPER