福建中學

FUKIEN SECONDARY SCHOOL

S6 Mock Examination (2021-2022)
Business, Accounting and Financial Studies Paper 2A
(2 hours 15 minutes)
Accounting Module

Date: 25th January 2022
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, weighting 30%)

Answer **ALL** questions in this section.

1. Katrina Company sells electrical appliances to customers. It keeps the following four ledgers only: Cash Book, General Ledger, Purchases Ledger and Sales Ledger. The following are the transactions of Katrina Company for the year ended 31 December 2021:

Transaction		**Debit entry to be recorded**		**Credit entry to be recorded**	
		Account	**Ledger**	**Account**	**Ledger**
(i)	Washing machines sold to customers by cheque	(1)	(2)	(3)	(4)
(ii)	Electricity bill for December 2021 received and not yet paid	(5)	(6)	(7)	(8)
(iii)	Acquired freezers for resale on credit	(9)	(10)	(11)	(12)
(iv)	Received microwave ovens returned by credit customers	(13)	(14)	(15)	(16)

REQUIRED:

(a) Referring to the above table, write your answers for items (1) to (16) in the answer book. (4 marks)

(b) Give one function of keeping Purchases Ledger. (1 mark)

(c) State the books of original entry for transactions (i) and (ii) respectively. (1 mark)

(Total: 6 marks)

2. Rachel Company's cash at bank account showed a credit balance of $9 600 as at 31 December 2021, which did not agree with the balance shown in the bank statement on that date. Subsequent checking of the cash at bank account with the bank statement found that:

(i) Dividend of $2 200 had been credited by the bank but no entry had been made in the books.

(ii) A refund of $650 for the overpayment of selling expenses was received via credit transfer. No entry had been made in the books.

(iii) An incorrect standing order of $6 600 for rent had been made by the bank on 15 December 2021. On 3 January 2022, the bank reversed the entry in Rachel Company's account.

(iv) A cheque of $7 450 was received from a customer on 30 December 2021 and correctly recorded in the books. It was credited by the bank on 4 January 2022.

(v) A cheque of $9 200, dated 5 January 2022, was received from a credit customer for settlement of his account and was recorded in the books.

(vi) A debit of $4 250 was recorded in the bank statement for a dishonoured cheque from a customer.

(vii) Cheques issued amounting to $8 250 had not been presented to the bank for payment.

REQUIRED:

(a) Updated the cash at bank account of Rachel Company. (3 marks)

(b) Prepare a bank reconciliation statement as at 31 December 2021, commencing with the updated balance of the cash at bank account. (3 marks)

(Total: 6 marks)

3. Pearson Company manufactures and sells three products. Selling prices and costs per unit are:

	Product X	**Product Y**	**Product Z**
	$	$	$
Selling price	138.0	120.0	65.0
Direct material ($60 per kg)	37.5	30.0	17.5
Direct labour ($80 per hour)	22.5	20.0	10.0
Variable production overheads	9.0	8.0	4.0
Fixed production overheads	13.5	13.5	13.5
Sales commission	14.0	12.0	6.5

Additional information:

(i) The projected annual demand for products X, Y and Z in 2022 is 18 000 units, 22 000 units and 32 000 units respectively.

(ii) The annual fixed production overheads in 2022 is budgeted at $972 000 and was absorbed based on number of units produced.

(iii) The availability of direct material will be limited to 34 000 kg in 2022 due to limited supply. Direct labour will be limited to 14 000 hours in 2022.

REQUIRED:

(a) Determine which of the resources, direct material or direct labour, is the limiting factor. Show clearly your workings. (2 marks)

(b) State the production quantity of each product in 2022 which will maximise the total contribution of Pearson Company at its full capacity. Support your answer with calculations. (4 marks)

(Total: 6 marks)

4. Donna Company manufactures and sells two products, Product S and Product R, operates an absorption costing system. Production overheads are absorbed at a plant-wide pre-determined rate based on direct labour hours.

Budgeted unit costs for each product in 2021 were as follows:

	Product S	**Product R**
	$	$
Direct materials	50	65
Direct labour ($80 per hour)	40	60
Production overheads absorbed	30	45

Production quantities in 2021 were:

	Budget	**Actual**
Product S (units)	21 000	22 000
Product R (units)	15 000	14 500

Actual expenditure in 2021 on prime costs per unit of product was as per budget, as were the actual direct labour hours per unit. Total production overheads incurred in 2021 were $1 322 650.

REQUIRED:

(a) Calculate for 2021:

(1) the total budgeted production overheads

(2) the plant-wide pre-determined production overhead absorption rate

(2 marks)

(b) Calculate the under-absorption or over-absorption of production overheads for 2021. (2 marks)

(c) Briefly explain why the under-absorption or over-absorption of production overheads calculated in (b) occurred in 2021. (2 marks)

(Total: 6 marks)

Section B (24 marks, weighting 45%)
Answer **TWO** questions in this section.

5. Harvey and Mike were partners sharing profits and losses in the ratio of 2:1. The partnership agreement stipulates that interest on partners' capital is 5% per annum and interest on partners' drawings is charged at 6% per annum. Also, Harvey is entitled to an annual salary of $60 000.

Given below in the trial balance of the partnership as at 31 December 2021:

	Dr.	Cr.
	$	$
Motor vehicles – cost	425 000	
– accumulated depreciation, 1 January 2021		228 000
Inventory, 31 December 2021	64 000	
Cash at bank	54 880	
Trade receivables and payables	56 000	33 000
5% Loan from Harvey (borrowed on 1 January 2021)		100 000
Partner's salary – Harvey	30 000	
Net loss before appropriation	160 120	
Drawings – Mike (withdrawn on 1 September 2021)	44 000	
Capital – Harvey		273 000
– Mike		200 000
	834 000	834 000

After preparing the trial balance above, the following omissions were subsequently discovered:

(i) Interest on loan from Harvey.

(ii) Depreciation of motor vehicle, which is calculated at 30% per annum using the reducing balance method.

REQUIRED:

(a) Prepare the appropriation account of the partnership for the year ended 31 December 2021, commencing from the adjusted net loss before appropriation. (5 marks)

(b) State one reason why the partners agree that Harvey is entitled to a partner's salary in the partnership agreement. (1 mark)

Due to huge losses incurred in 2021, the partners agreed to dissolve the partnership on 1 January 2022 with the following arrangements:

(iii) Motor vehicles were taken over by Mike at 80% below its cost.

(iv) Harvey took over all the inventory to settle 60% of his loan to the partnership. The partnership paid the outstanding loan balance by cheque. Harvey agreed to waive the loan interest due.

(v) All credit customers settled their accounts in full after deducting bad debts of $5 600 and allowing a cash discount of $2 450.

(vi) Trade payables were settled by the partnership and a discount of 5% was received.

(vii) Realisation expenses of $14 000 were paid by the partnership.

REQUIRED:

(c) Prepare the realisation account. (6 marks)
(Total: 12 marks)

6. The balances of Zane Limited as at 31 December were as follows:

	2020	2021
	$	$
200 000 Ordinary share capital	400 000	400 000
Inventory, 31 December	167 000	85 000
Trade receivables	94 000	102 000
3% Debentures (repayable in 2025)	200 000	200 000
Trade payables	96 000	82 000
Retained profits, 31 December	53 000	107 000
Cash at bank	25 000 (Dr)	42 000 (Cr)
Motor vehicles, net	463 000	644 000

Additional information:

(i) All purchases were made on credit and total purchases for the year 2021 were $425 000. A supplier sent some goods on a sale-or-return basis and this was recorded as credit purchases at the supplier's list price of $8 700. On 31 December 2021, the company decided not to accept those goods and the bookkeeper did not include them in the closing inventory of the company.

(ii) No profit appropriations were made during the year.

(iii) At 31 December 2021, the market price per ordinary share of Zane Limited was $3.5.

REQUIRED:

(a) Calculate (to two decimal places) the following ratio for 2021 (365 days per year):

(1) working capital ratio

(2) average trade payables repayment period

(3) gearing ratio

(4) price-earnings ratio

(8 marks)

(b) Explain the meaning of price-earnings ratio. (1 mark)

The industry average of the accounting ratios in 2021 were:

Working capital ratio	2.2:1
Average trade payables repayment period	90 days
Gearing ratio	40%
Price-earnings ratio	8 times

REQUIRED:

(c) Based on the ratios calculated in (a) and the information above, comment on the liquidity of Zane Limited for the year 2021. (3 marks)

(Total: 12 marks)

7. An extract from Louis Limited's statement of financial position as at 31 December 2020 showed the following:

	$
Office equipment	358 000
Less: Accumulated depreciation	130 000
	228 000

It is the company's policy to depreciate office equipment at 20% per annum on a reducing balance basis. A full year's depreciation is provided in the year of acquisition, but no depreciation is provided in the year of disposal.

During the year ended 31 December 2021, the following transactions took place:

(i) New equipment with a list price of $120 000 was purchased on 1 January 2021. The company was able to secure from the supplier a trade discount of 5% off the list price. Freight charges of $3 000 and installation costs of $13 000 were incurred in connection with the equipment purchased. The company insured the equipment against fire and theft at a premium of $800 per annum. The cost of a maintenance agreement for the equipment was $4 200 per annum. All of the above expenditures were paid by cheque. Scrap value was estimated at $35 000.

(ii) On 1 May 2021, the company traded in one piece of the old equipment purchased on 1 March 2018 in exchange for a new equipment at a price of $56 000. The old equipment had an accumulated depreciation of $40 000 on 1 January 2021. The supplier granted a trade-in allowance amounting to 60% of the net book value of the old equipment and the outstanding amount would be settled in January 2022.

REQUIRED:

(a) Prepare a statement to calculate the cost of the new office equipment in (i) above. (2 marks)

(b) For Louis Limited, prepare the following accounts for the year ended 31 December 2021:

(1) Office equipment account

(2) Accumulated depreciation account – office equipment

(3) Disposal account – office equipment

(8 marks)

Louis Limited has depreciated machinery using reducing balance method since 2015. Due to advancement of technology, the consumption pattern of machines changes. A director proposed to change the depreciation method in 2022 to reflect that.

REQUIRED:

(c) Explain, with the most relevant accounting principle, whether Louis Limited can change the depreciation method of machinery. (2 marks)

(Total: 12 marks)

SECTION C (20 marks, weighting 25%)
Answer **ONE** question in this section.

8.
(A) Spector Limited maintains a uniform mark up of 120% on all goods sold. After the preparation of the financial statements for the year ended 31 December 2021, the company has the following account balances:

	Dr.	Cr.
	$	$
Retained profits, 31 December 2021		402 400
Cash at bank	125 400	
Machinery, net	450 000	
5% bank loan [note (iv)]		160 000
Short-term investment	100 000	
Inventory	224 600	
Ordinary share capital		400 000
Trade receivables, net	407 400	
Trade payables		345 000
	1 307 400	1 307 400

Additional information:

(i) During November 2021, goods costing $36 000 were sent to a customer on a sale-or-return basis and no entry was made. On 31 December 2021, the customer notified Spector Limited that he would accept two-thirds of the goods and would return the balance on 6 January 2022. No entry was made for the acceptance of the goods.

(ii) A physical inventory count was conducted on 3 January 2022 and the value of inventory on that date had been entered in the books as closing inventory for the year ended 31 December 2021. The purchases and sales during the period 1 January to 3 January 2022 amounted to $45 000 and $33 000 respectively.

(iii) It is the company's policy to charge depreciation on machinery at a rate of 20% using the straight-line method on a monthly basis. The bookkeeper had provided a full year's deprecation on machinery for 2021. A machine which was purchased for $150 000 on 1 September 2016 was still in use at the end of 2021.

(iv) The original amount of the 5% bank loan was borrowed on 1 April 2019. The principal in repayable in four equal annual instalments on 31 March 2020, 2021, 2022 and 2023. The annual interest for the bank loan had not been paid or provided for.

(v) A cheque of $35 000 paid to a supplier on 25 June 2021 remains unpresented. It was the practice of the bank not to honour cheques outstanding for more than six months. No entry was made in the books for this.

(vi) Allowance for doubtful accounts had been mistakenly calculated at 3% on trade receivables. The rate should have been 5%.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (8 marks)

(b) Prepare for Spector Limited the statement of financial position as at 31 December 2021. (8 marks)

(B) Litt Company is a retailer which sells Product A at $320 per unit. The cost of goods sold of Product A is $120 per unit in 2022.

A-Youth Club, a potential client, approaches Litt Company for a bulk purchase scheme on Product A. Each member will be allowed to purchase one unit of Product A at a 40% discount. In return of the deal, Litt Company will give a lump sum of $15 000 to A-Youth Club for sponsoring the club's activities.

Litt Company estimates that:

(i) 75% of the 300 members of A-Youth Club will purchase Product A through the bulk purchase scheme.

(ii) Sales of Product A to other customers will be reduced by 40 units as the salesmen have to serve A-Youth Club.

(iii) A marketing manager who is currently paid at $18 000 per month will serve A-Youth Club. He will spend 10% of his working time in February 2022 for this order. This job will not affect his routine duties.

REQUIRED:

(c) Prepare a statement to calculate the relevant revenue and relevant costs for the scheme proposed by the A-Youth Club and explain whether Litt Company should accept the scheme. (4 marks)

(Total: 20 marks)

9.

(A) Ross Company sells computers and provides computer repairs services to customers. In December 2021, a fire broke out and some of the accounting records and inventory were destroyed. After careful investigation, the following information for the year ended 31 December 2021 was made available:

(i) Ledger balance as at:

	31 December 2021	1 January 2021
	$	$
Trade receivables	11 800	9 200
Trade payables	22 000	19 000
Accrued service fee income	3 000	6 400
Equipment, net	?	120 000
Accrued wages and salaries	12 000	14 000
Inventory	2 000	67 000
Bank	?	34 000

(ii) All purchases were made on credit only but sales were made both on credit and for cash.

(iii) Goods were sold at the uniform margin of 50%, expect that a 5% trade discount was allowed on all cash sales.

(iv) All cash sales were deposited to the bank after paying wages and salaries of $58 000 and drawings of $32 000.

(v) A summary of the bank statement for the year ended 31 December 2021 was as follows:

Receipts	$
Cash deposited	109 500
Cheque received from credit customers	46 000
Service fee received	85 000
	240 500

Payments	$
Cheques paid to credit suppliers	78 000
Rent of shop for 13 months up to 31 January 2022	104 000
	182 000

Cash sales were the only source of cash deposit.

(vi) The insurance company agreed to compensate the business for 80% of the inventory destroyed.

(vii) The bank reconciliation statement as at 31 December 2021 showed that a cheque for $5 000 payable to a credit supplier was not presented.

(viii) The only equipment held was purchased on 1 January 2019. It is the company's policy to provide depreciation on the equipment at 20% per annum on cost.

REQUIRED:

(a) Prepare an income statement for the year ended 31 December 2021, showing clearly the amount of inventory loss. (10 marks)

(b) Prepare a statement of financial position as at 31 December 2021. (6 marks)

(B) Jessica Company manufactures a single product, Product C. The cost accountant discovered that the production cost is higher than expected because of an out-dated machine. The company is considering replacing the out-dated machine. Information of the two machines is as follows:

	New Machine	Old Machine
Purchase cost	\$2 200 000	\$3 000 000
Net book value, 1 January 2022	\$2 200 000	\$1 125 000
Estimated remaining useful life	3 years	3 years
Salvage value, 1 January 2022	-	\$350 000
Salvage value, 1 January 2025	\$145 000	\$22 000
Annual depreciation expenses	\$685 000	\$372 250

Additional information:

(i) Annual production of Product C is estimated at 30 000 units. The new machine will reduce unit production cost of Product C by 20% to \$40 per unit.

(ii) It is estimated that there will be a reduction in maintenance expenses of \$19 000 per month.

REQUIRED:

(c) Prepare a statement to calculate the net benefit to replace the machine for three years and recommend whether Jessica Company should replace the machine. (4 marks)

(Total: 20 marks)

END OF PAPER