

Business, Accounting and Financial Studies Paper 2A

Accounting Strand

Mock Exam Paper (Mar 2024)

This paper must be answered in English.

Time allowed: 2 hours and 30 minutes

Instructions:

- 1 There are three sections in this paper.
- 2 All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.

SECTION A (38 marks)

Answer **ALL** questions in this section.

- 1** Nancy Limited is a furniture trading company with a financial year-end on 31 December. Some of its business transactions for the year ended 31 December 2023 are given below:

REQUIRED:

For each of the following transactions, show the double entries required and the net effects on the accounting equation (Assets = Equity + Liabilities) (12 marks)

Transactions		Entries required	Net effects on the accounting equation
<i>Example:</i> Purchased a machine for \$8,000 in cash.		Dr. Machinery \$8,000 Cr. Cash \$8,000	No effect
(i)	Some surplus stationery purchased at \$120 in 2023 was sold on credit for \$80.		
(ii)	Goods costing \$25,000 were taken from the warehouse for office use.		
(iii)	500,000 ordinary shares were issued at \$1.50 per share. Subscription monies of \$825,000 were received, of which \$300,000 was used to repay a bank loan after the allotment of shares. The excess subscription monies would be refunded to applicants in 2024.		
(iv)	Nancy Limited wrote off \$8,400 owed by a customer who declared bankruptcy.		
(v)	Paid dividend of \$48,000 which had been declared on 31 December 2022.		

- 2 Peter Limited trades in pillows and all of its sales are made on credit. The balance of the allowance for doubtful accounts account for trade receivables on 31 December 2022 was \$17,340. During the year ended 31 December 2023, the company wrote off debts of \$48,540 owed by its customers, and recovered \$5,320 from a customer, John, that had been written off in 2021. The company's accounts receivables as at 31 December 2022 were all from its customers.

The accounts receivables extracted from the company's books as at 31 December 2023 were as follows:

Trade receivables	\$883,000
Other receivables	<u>\$300,000</u>
Total	<u>\$1,183,000</u>

On 1 October 2023, the company sold a machine with a net book value of \$36,000 on credit at a gain of \$24,000. However, no entries have been made for this. An allowance of 8% on trade receivables and an allowance of 2% on other receivables were to be provided on 31 December 2023.

In 2024, the company decided to calculate the allowance for doubtful accounts based on ageing and prepared an ageing analysis on 31 December 2024. The company's accounts receivables as at 31 December 2024 were all from its customers.

<i>Age of trade receivables</i>	<i>Amount of trade receivables</i>
Less than 31 days	\$1,230,000
31 – 60 days	\$295,000
Over 60 days	<u>\$254,000</u>
Total	<u>\$1,779,000</u>

After preparing the above ageing analysis, the company discovered the following:

- (i) A customer who made a purchase of \$8,000 on 18 March 2024 declared bankruptcy and was unable to repay the amount owed. However, the company did not record this in its books.
- (ii) On 10 December 2024, a customer, Kenny, ordered goods and paid a deposit of \$10,000. The amount was credited to Kenny's account. Kenny's account for the year ended 31 December 2024 is given below:

Trade receivables — Kenny					
2024		\$	2024		\$
Dec 5	Sales	80,000	Dec 10	Bank	10,000
			Dec 31	Balance c/d	70,000
		<u>80,000</u>			<u>80,000</u>

A customer owing \$23,000 for 40 days was going to wind up. Peter Limited expected that only 15% of the debt can be recovered. For the remaining credit customers, the allowance for doubtful accounts is calculated based on the age of the accounts at the year-end: 1% for accounts aged less than 31 days, 3% for accounts aged between 31 and 60 days, and 8% for accounts aged over 60 days.

REQUIRED:

Prepare the following accounts for the years ended 31 December 2023 and 31 December 2024.

(a) Allowance for doubtful accounts account — Trade receivables (6.5 marks)

(b) Allowance for doubtful accounts account — Other receivables (2.5 marks)

(Total: 9 marks)

3 (A) Define 'opportunity cost'.

(1 mark)

(B) Taikoo Company is a local watch manufacturer. The following is the cost information for the previous year relating to the production of 45,000 units of a component that is used for the production of watches.

	\$
Variable production costs	
– Direct materials	240,000
– Direct labour	270,000
– Direct expenses	50,000
– Water and electricity	110,000
 Fixed production overheads	 810,000

The company received a proposal from an external supplier who can provide the component. The following information was collected for evaluation:

- (i) The company has an annual demand for the component at 45,000 units.
- (ii) The price quoted by the external supplier is \$20 per unit.
- (iii) Carriage inwards will be incurred at \$1.8 per unit.
- (iv) Insurance during the delivery of the component will be incurred at \$0.5 per unit.
- (v) The discontinuation of the production of the component will result in a reduction of fixed production overheads by \$48,000 per annum.
- (vi) If the production of the component is discontinued, the related production machinery will be sold at \$25,000.

REQUIRED:

Explain, with supporting calculations in a statement form, whether Taikoo Company should continue to produce the component or purchase it from the external supplier.

(7 marks)

(Total: 8 marks)

- 4 Mary is a sole trader engaged in the trading of men's clothing. During the burglary in March 2023, the firm lost some of its assets and most of its accounting records. After investigations, information for the year ended 31 March 2023 was as follows:

- (i) Some account balances as at 31 March 2022:

	\$
Property, plant and equipment, net	201,600
Inventory	340,800
Trade receivables	189,000
Trade payables	126,000
Cash	129,300

- (ii) All receipts and payments were made in cash. The cash transactions during the year were:

	\$
Receipts from credit customers	?
Payments to suppliers	2,206,800
Selling and distribution expenses	218,688
Administrative expenses	130,944
Drawings	21,600

- (iii) Sales were made on credit only. The following information related to sales was available:

<u>Date of receipts of order</u>	<u>Date of delivery</u>	<u>Amount</u>
		\$
25 February 2022	5 April 2022	1,308,000
20 September 2022	28 September 2022	744,000
31 December 2022	18 January 2023	816,000
25 March 2023	10 April 2023	360,000

- (iv) Sales discounts and sales allowance amounted to \$12,000 and \$1,272, respectively.
- (v) Write-off of trade receivables due to the bankruptcy of a customer amounted to \$12,000 had not been recorded in the books.
- (vi) On 31 March 2023, cash loss due to the burglary was ascertained at \$5,000.
- (vii) Some account balances as at 31 March 2023 were extracted from the books:

	\$
Trade receivables	217,728
Trade payables	117,600
Cash	?

REQUIRED:

Prepare the following accounts for the year ended 31 March 2023:

- (a) Cash account (4.5 marks)
- (b) Trade receivables account (4.5 marks)
- (Total: 9 marks)

SECTION B (32 marks)

Answer **ALL** questions in this section.

- 5** Abby, Billy and Cassy have been in partnership for many years, sharing profits and losses in the ratio of 2 : 2 : 1. The partnership's post-closing trial balance as at 31 December 2022 is shown below:

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Property and plant	1,480,000	
Equipment	650,000	
Motor vehicles	349,000	
Accumulated depreciation		
– Property and plant		888,000
– Equipment		180,375
– Motor vehicles		87,250
Accrued salaries: Adam		36,750
Loan from Abby		200,000
Inventory	83,000	
Trade receivables, net	228,000	
Trade payables		95,000
Capital		
– Abby		248,000
– Billy		1,184,540
– Cassy		668,500
Current		
– Abby	1,090,550	
– Billy		158,000
– Cassy		222,450
Bank	88,315	
	<u>3,968,865</u>	<u>3,968,865</u>

On 1 January 2023, Abby retired. Billy and Cassy invited Adam, the manager of the company, to join as a partner with the following arrangements:

- (i) Property and plant were to be revalued at 90% of their cost. Equipment was to be revalued upwards by 20% of its net book value while motor vehicles were to be revalued at \$280,000. The professional fee for the revaluation of non-current assets amounted to \$8,000 and would be paid on 28 February 2023.
- (ii) The profit and loss sharing ratio of Adam, Billy and Cassy is 1 : 2 : 3.
- (iii) The allowance for doubtful accounts, which had been provided based on 5% of the balance of trade receivables, would be increased to 8% after a review of the economic environment.
- (iv) A batch of inventory costing \$32,000 was obsolete and was expected to be sold for \$18,000 after payment of a sales commission of \$580.

- (v) The new partnership would not keep a goodwill account in the accounting books. The adjustments for goodwill between partners would be made in the capital accounts directly. Adam paid \$30,000 by cheque for his share of goodwill.
- (vi) Adam had to inject his car into the partnership. He purchased the car for \$240,000 in 2018, and its fair value on 1 January 2023 was \$128,000. Besides, Adam had to repay half of the trade payables on behalf of the partnership. The salaries owed to Adam were to be transferred to his capital account.
- (vii) The balance of the loan from Abby account would be transferred to the capital account. Abby's outstanding amount owed to the partnership would be left as a half-year interest-free loan to her. As a token of appreciation for Abby's dedicated service to the partnership, a motor vehicle with a revalued amount of \$28,000 was to be given to her at no charge and the amount was to be borne equally by Billy and Cassy.
- (viii) The agreed total capital balance of the new partnership would be \$2,400,000, which was to be contributed by Adam, Billy and Cassy based on the profit and loss sharing ratio. Any surplus or deficit of the capital account would be adjusted by injection or withdrawal of funds through cheques.

REQUIRED:

Prepare the following to record the retirement of Abby and the admission of Adam:

- (a) the revaluation account (4 marks)
- (b) the partners' capital accounts in columnar form (6 marks)

(Total: 10 marks)

- 6 (A) On 1 December 2018, Kay Company placed an order with an overseas supplier for a machine and paid a deposit of \$30,000. On 25 December 2018, the machine was received, import duties of \$3,000 and the remaining balance of \$185,000 were paid on the same day. After its installation was completed on 1 January 2019, the machine was put into operation, with installation costs amounting to \$2,000. The estimated useful life of the machine is 5 years, with a residual value of \$20,000. It is the company's policy to provide depreciation on machinery using the reducing balance method at a rate of 40% per year.

REQUIRED:

- (a) With reference to a relevant accounting principle or concept, explain why a company has to provide depreciation for non-current assets. (1.5 marks)
- (b) Prepare the machinery's accumulated depreciation account for the years ended 31 December 2022 and 31 December 2023. (3.5 marks)
- (B) Gan Company's financial year ends on 31 December. On 1 April 2021, the company purchased a piece of equipment at a list price of \$320,000, with a 15% discount from the seller. The equipment is depreciated on the straight-line basis at 20% per annum and the residual value is estimated to be \$6,000.

On 1 January 2022, the company spent \$120,000 to upgrade the equipment. It was expected that annual operating expenses would be decreased by \$18,000 after the upgrade. The estimated remaining useful life of the equipment after the upgrade is four years, with a residual value of \$9,000.

On 31 December 2023, the equipment was totally destroyed in an accident. The company sold the equipment on the same day through an agent for \$64,800 and paid a commission and handling fees totalling \$570 to the agent. The buyer paid half of the amount on the same day, and the remaining balance would be paid on 25 January 2024.

REQUIRED:

- (c) Calculate the depreciation expense for the equipment for 2021, 2022 and 2023. (2.5 marks)
- (d) Prepare the disposal account for equipment for the year ended 31 December 2023 (2.5 marks)

(Total: 10 marks)

- 7 (A) Butterfly Manufacturing Co. commenced business in 2023, producing one type of skin toner called SK. Each bottle of SK requires 1 liter of direct materials. The budgeted production cost information for the year ended 31 December 2023 based on 120,000 bottles is given below:

Direct materials	\$1,200,000
Direct labour	\$900,000
Royalties (based on production volume)	\$60,000
Fixed manufacturing overheads	\$240,000
Variable manufacturing overheads	\$30,000

Other budgeted information:

Fixed selling expenses	\$180,000
Sales commissions (based on sales volume)	\$1.2 per bottle
Administrative expenses	\$480,000
Sales volume	108,000 bottles
Selling price	\$36 per bottle

REQUIRED:

- (a) Prepare a budgeted income statement for the year ended 31 December 2023 based on marginal costing. (5 marks)
- (b) Calculate the net profit under absorption costing for the year ended 31 December 2023. (3 marks)
- (B) Turtle Ltd manufactures and sells two products: X and Y. Information for the year ended 31 December 2023 is as follows:

	<u>X</u>	<u>Y</u>
Unit selling price	\$1,200	\$180
Direct labour cost per unit	\$320	\$24
Direct material cost per unit	\$150	\$10
Direct expenses per unit	\$70	\$9
Variable manufacturing overheads per unit	\$100	\$12
Fixed manufacturing overheads absorbed per unit	\$24	\$18
Variable selling expenses per unit	\$80	\$5

Fixed costs for 2023:

Fixed selling expenses	\$60,800
Fixed administrative expenses	\$600,000
Fixed manufacturing overheads	?

The company's full production capacity is 20,000 machine hours per year. The annual fixed manufacturing overheads are absorbed based on machine hours. Each unit of X and Y requires 1.2 machine hours and 0.9 machine hours, respectively. The predetermined fixed manufacturing overheads for 2023 were the same as the actual amount.

REQUIRED:

- (c) Calculate the breakeven sales quantity for 2023, assuming that the sales volume of X and Y is always maintained at the ratio of 1 : 4. (4 marks)

(Total: 12 marks)

SECTION C (18 marks)

Answer **ONE** question in this section.

8 The trial balance of Moon Limited as at 31 December 2023 is given below:

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Purchases and sales	3,800,000	5,712,000
Carriage inwards	30,000	
Insurance — against loss during the period of delivery of goods to the company's warehouse	400	
Other operating expenses	89,200	
Administrative expenses	1,266,000	
Deposit to supplier: purchase of goods	40,000	
Office equipment	2,758,000	
Accumulated depreciation — Office equipment, 1 January 2023		1,346,800
Motor vehicles	1,372,000	
Accumulated depreciation — Motor vehicles, 1 January 2023		739,200
Inventory, 1 January 2023	166,600	
Bank	1,385,600	
Trade receivables and trade payables	2,207,800	837,200
2023 Interim ordinary dividend	518,000	
2023 Interim preference dividend	8,000	
Retained profits, 1 January 2023		1,994,400
4% Preference share capital		400,000
1,106,000 Ordinary shares		2,212,000
Share application and allotment		400,000
	13,641,600	13,641,600

Additional information:

- (i) On 31 December 2023 the company conducted a physical inventory count and determined that the inventory value was \$189,000. Immediately after the inventory count, the company returned a batch of goods costing \$420 to the supplier and received a full cash refund. However, this event was not recorded in the books.
- (ii) Carriage inwards of \$18,400 and insurance during delivery of \$245 related to closing inventory were not included in the value of closing inventory.
- (iii) On 1 November 2023, the company received a batch of goods costing \$54,000 from a supplier, SUN, on a sale-or-return basis and recorded it as a credit purchase. On 31 December 2023, the company accepted 40% of those goods and sold them on credit to customers at a gross profit ratio of 20%, but no entries were recorded in the books. The remaining goods would be returned to SUN in January 2024 and had been included in the closing inventory.
- (iv) The company ordered goods from a supplier on 1 October 2023 and paid a 20% deposit of the purchase price. The goods were received on 20 December 2023 and the balance would be paid in January 2024, but no entries had been made.

- (v) Depreciation on office equipment and motor vehicles is to be charged as follows:
- Office equipment: 20% per annum using the reducing-balance method. The residual value was estimated at \$175,000.
 - Motor vehicles: 25% per annum using the straight-line method.

On 1 September 2023, the company traded in an old motor vehicle for a new model with a list price of \$570,000. The trade-in value of the old motor vehicle was \$48,000, and the balance was settled immediately by cheque. However, no entries were made for the trade-in arrangement. The old motor vehicle was purchased on 1 July 2020 for \$252,000.

A motor vehicle purchased for \$224,000 on 1 April 2019 was still in use at the end of 2023.

- (vi) In 2023, the company issued 200,000 ordinary shares at \$2 per share and completed the allotment of shares. However, the company only debited the bank account and credited the share application and allotment account.
- (vii) On 31 December 2023, the board of directors declared a final ordinary dividend of \$0.05 per share and a final preference dividend for 2023.

REQUIRED:

Prepare for Moon Limited:

- (a) an income statement for the year ended 31 December 2023. (8 marks)
- (b) a statement to calculate the retained profits as at 31 December 2023. (3.5 marks)
- (c) a statement of financial position as at 31 December 2023. (6.5 marks)

(Total: 18 marks)

- 9 XYZ Company prepared an adjusted trial balance as at 31 December 2023 before preparing the closing entries. As the trial balance did not agree, a suspense account was opened. Besides, the company had prepared the necessary entries to calculate the cost of goods sold for the year ended 31 December 2023. The balance of the cost of goods sold account as at 31 December 2023 was \$152,500.

Subsequent investigation revealed the following errors:

- (i) Starting from August 2023, the company enrolled in some staff training courses for its employees. Each course consists of 6 lessons to be held over six consecutive months. The fees for the entire course are payable in full at the time of enrollment. The company paid for two courses during the year ended 31 December 2023:

	<u>Fees paid</u>
Course 1: Starting in August 2023	\$180,000
Course 2: Starting in October 2023	<u>\$420,000</u>
	<u>\$600,000</u>

The full amount of the above payments had been recorded in the staff training expenses account.

- (ii) In 2023, the following cheques received from credit customers were recorded in the cash book:

<u>Date of deposit</u>	<u>Date credited by the bank</u>	<u>Amount</u> \$
29 December 2023	—	1,600
28 December 2023	29 December 2023	3,000
1 January 2024	2 January 2024	4,800

The cheque deposited on 29 December 2023 was dated 15 January 2024.

- (iii) Cash received from a credit customer of \$7,900 for the settlement of his trade debts had been recorded as a refund from a supplier.
- (iv) Accrued rent of \$2,800 as at 31 December 2022 had been brought forward at the beginning of 2023 as \$280 on the debit side of the rental income account.
- (v) On 1 December 2023, the owner of the company withdrew goods costing \$20,000 for personal use but no entries had been made. Besides, the returns outwards journal was overcast by \$490.
- (vi) A machine costing \$26,400 was purchased during 2023. The company paid \$24,840 cash and used an old machine with a carrying amount of \$1,776 (original cost: \$23,088) to settle the balance. The bookkeeper only recorded this transaction in the machinery account and the cash account in the amount of \$24,840.

It is the company's policy to provide depreciation on its non-current assets at 25% per annum using the reducing balance method. A full year's depreciation should be provided in the year of acquisition but none in the year of disposal.

- (vii) Carriage inwards of \$5,200 and import duties of \$420 related to the inventory as at 31 December 2023 were not included in the value of closing inventory. They had been treated as part of the cost of goods sold.
- (viii) On 20 December 2023, goods invoiced at \$180,000 (at a gross profit margin of 20%) were sent to a customer on a sale-or-return basis. On 28 December 2023, the customer informed the company that he agreed to buy 40% of the goods on credit. As at 31 December 2023, the remaining 60% of the goods had a net realisable value of \$98,000 and was not included in the closing inventory. The above events had not been recorded in the books.

REQUIRED:

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (14 marks)
- (b) Prepare the suspense account to find out the difference as per trial balance. (1.5 marks)
- (c) Prepare a statement to calculate the correct cost of goods sold for the year ended 31 December 2023. (2.5 marks)

(Total: 18 marks)

END OF PAPER 2A