FANLING LUTHERAN SECONDARY SCHOOL
2015–2016 S6 MOCK EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A
Accounting Module

Date : 20th January, 2016
Time allowed: 10:15 am - 12:30 pm (2 hour 15 minutes)
This paper must be answered in English

INSTRUCTIONS:

1. There are three sections in this paper

2. All questions in Section A and B are **COMPULSORY**. You are required to answer **ONE** of the two questions in Section C.

3. Write your answers in the answer sheet. Start **EACH** question (not part of a question) on a **NEW** page.

4. This paper contains 7 pages.

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

1. The cash book of Thomas Wong as at 31 December 2017 had a credit balance of $34,000. An examination of the cash book and bank statement revealed the following:

(i) A standing order payment of $2,200 for a water bill, made on 27 December 2017, had not been recorded in the cash book.
(ii) The bank had wrongly credited Thomas Wong's account with a receipt of $344 which should have been credited to the account of another bank account holder, Thomas Wang.
(iii) Debit side of the cash book was understated by $4,800.
(iv) Thomas found that the following cheques issued during December 2017 had not been presented for payment:

Cheque No.	*Amount*
	$
898	1,389
903	2,662
905	13,544

(v) Cheques from debtors totalling $2,700 were deposited into the business bank account on 31 December 2017. These cheques did not appear in the bank statement.
(vi) Bank charges of $1,350 had not been entered into the books.
(vii) A cheque for $500 issued to pay for goods purchased was mistakenly recorded as $5,000 in the cash book.

REQUIRED:
(a) Update the cash book of Thomas Wong, showing the adjusted balance on 31 December 2017.
(b) Prepare a bank reconciliation statement as at 31 December 2017, commencing with the adjusted cash book balance.

(Total 6 marks)

2. On 1 July 2016, Ivan Limited owed its supplier, Susan Company, $12,800. During the month of July 2016, Susan Company recorded the following transactions with Ivan Limited.

Jul	5	Susan Company supplied goods to Ivan Limited with a list price of $27,000 on credit, less a 7% trade discount.
"	11	Ivan Limited returned some of the goods purchased on 5 July. List price of those goods amounted to $1,000.
"	17	Ivan Limited settled half the amount owed by cheque.
"	25	Ivan Limited purchased goods of $12,500 on credit. No trade discount was given.
"	30	Susan Company received a cheque from Ivan Limited for full settlement.

REQUIRED:
(a) Write up the necessary purchases journal and returns outwards journal for Ivan Limited.
(b) In the books of Ivan Limited, prepare Susan Company's account for July 2016.

(Total 6 marks)

3. Mary Limited is a manufacturing company, producing a single product called "Superman". The following is the monthly production budget of the company, based on two different production levels:

Produces and sells	1,000 units	3,000 units
	$	$
Factory rent	600,000	600,000
Supervisors' salaries	80,000	88,000
Water fees	1,000	1,020
Electricity fees	6,500	16,000
Direct materials	34,500	103,500
Direct labour	420,000	1,260,000
Salesmen's salaries	163,000	223,000
Administrative expenses	50,000	50,000

You are required to classify the costs into:

(a) Variable cost

(b) Mixed cost

(c) Fixed cost

(Total 6 marks)

4. Angel Company has its financial year ending on 31 December. It purchased a machine for $240,000 on 1 January 2011. The machine has been depreciated using the straight-line method based on an estimated useful life of 10 years and residual value of $4,000. The depreciation expense is calculated on monthly basis.

On 1 January 2012, an amount of $180,000 was spent on the machine to increase its productivity. It was expected that after the improvement, the annual repair costs would be reduced by $13,500, with no change in the remaining useful life and residual value.

Unfortunately, the machine was totally destroyed in an accident on 30 June 2013. On 15 October 2013, the insurance company agreed to pay compensation of $210,000 in January 2014.

REQUIRED:

(a) Compute the depreciation expense for the machine for each of the three years of 2011, 2012 and 2013.

(b) Prepare the journal entries for recording the disposal of the machine in 2013. Narration is not required.

(Total 6 marks)

SECTION B (36 marks)
Answer **ALL** questions in this section.

5. Alice, Barry and Carl were partners, sharing profits and losses in the ratio of 3 : 2 : 1. The following statement of financial position was prepared on 30 June 2016:

Alice, Barry and Carl
Statement of Financial Position as at 30 June 2016

	$		$
Non-current assets			
Machinery, net book value			90,800
Fixtures and fittings, net book value			31,600
Motor vehicles, net book value			23,000
			145,400
Current assets			
Inventory		6,350	
Trade receivables	7,600		
Less Allowance for doubtful accounts	400	7,200	
Cash and bank		10,540	
		24,090	
Less *Current liabilities:*			
Trade payables		5,390	
Net current assets			18,700
			164,100
Financed by:			
Capital accounts:			
Alice		48,000	
Barry		60,000	
Carl		50,000	158,000
Current accounts:			
Alice		8,000	
Barry		7,100	
Carl		(9,000)	6,100
			164,100

On 1 July 2016, Carl withdrew from the partnership. The profit and loss sharing ratio of Alice and Barry was maintained at 3 : 2. The following assets were revalued as follows:

(i) Machinery at 10% above its net book value
(ii) Fixtures and fittings to $20,000
(iii) Motor vehicles to $16,700
(iv) Inventory to $6,100

The recoverable amount of the trade receivables was estimated to be $7,300. Goodwill was revalued to $72,000. It was agreed that the amount of goodwill would not be shown in the books of the new partnership. Carl agreed to leave all of his capital as a loan to the partnership for three years.

REQUIRED:
(a) Prepare the revaluation account.

(b) Draw up the partners' capital accounts (in columnar form) to reflect Carl's withdrawal.

(Total 10 marks)

6 The trial balance of Wong's Company as at 31 December 2016 failed to agree and the difference was posted to a suspense account. Financial statements for the year were also prepared.

Subsequent checking of the records revealed the following:

(i) A payment of $500 for motor expenses had been wrongly entered into the motor vehicles account. Depreciation had been charged for the year at 10% per annum on cost.

(ii) A trade debtor, Jade Lam, declared bankrupt during the year. It is agreed that her debt of $3,000 was to be written off. No record had yet been made in the books.

(iii) Mr Wong, the owner of Wong's Company, purchased a watch for $1,500 as his son's birthday present. This amount was settled by Wong's Company and included in the purchases day book.

(iv) The credit side of a trade creditor's account had been over-added by $1,580.

(v) A sales invoice for $33,000 was entered twice in the sales journal and omitted from the personal account of the trade debtor.

(vi) A cheque for $3,500 drawn on 1 April 2016 to settle a creditor's account had not been presented to the bank at the year-end date.

REQUIRED:

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

(b) Identify the type of accounting error made in items (i), (ii), (iii) and (iv).

(c) Given there were no other errors in the books, state the original balance of the suspense account.

(Total 12 marks)

7. Ann manufactures three products: "Standard", "Advanced" and "Luxury". Details related to the three products are as follows:

	Standard	*Advanced*	*Luxury*
Per unit:			
Selling price	$250	$400	$2,500
Direct labour ($100 per hour)	0.5 hours	0.5 hours	6 hours
Direct materials ($1,000 per KG)	0.1 KGs	0.3 KGs	1.1 KGs
Budgeted demand per month	1,000 units	1,800 units	150 units

Fixed costs amounted to $230,000 per month.

REQUIRED:

(a) Calculate the contribution margin ratio for each product.

(b) Assuming that the sales of "Standard" and "Luxury" are the same as the budgeted demand, calculate the number of units of "Advanced" that needs to be sold to break even.

(c) Assuming that the sales mix would be the same as the budgeted demand, calculate the breakeven sales units of each product per month (using the equation approach).

(Round up to the nearest percentage point or unit)

(Total 14 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

8. The trial balance of Universe Limited as at 31 March 2016 is as follows:

Universe Limited
Trial Balance as at 31 March 2016

		$
Ordinary shares, $1 each		400,000
Returns	554	760
General reserve		12,000
Allowance for doubtful accounts		500
5% debentures (repayable on 30 September 2016)		20,000
Equipment, at cost	360,000	
Furniture, at cost	116,000	
Accumulated depreciation:		
Equipment		72,000
Furniture		33,600
Bank		2,570
Carriage inwards	2,246	
Commission income		7,600
Directors' remuneration	30,000	
Inventory as at 1 April 2015	29,690	
Purchases and sales	106,900	463,600
Water and electricity	117,000	
Retained earnings		13,600
Salaries and wages	90,600	
Trade receivables and trade payables	255,160	24,680
Suspense		57,240
	1,108,150	1,108,150

Additional information:

(i) Inventory as at 31 March 2016 was valued at $24,668.

(ii) Debenture interest for the year was not paid for.

(iii) 56,000 ordinary shares of $1 each were issued on 21 October 2015. There were no over- or under-subscription. The company only debited the bank account with the subscription monies received. No other entries were made.

(iv) Due to casting errors, sales were understated by $1,664; salaries and wages were understated by $424.

(v) Depreciation to be charged:
Equipment: 5% per annum on cost
Furniture: 20% per annum on net book value

(vi) The allowance for doubtful accounts was to be kept at 5% of trade receivables.

(vii) On 31 March 2016, the board of directors decided to transfer $3,000 to the general reserve.

You are required to prepare the following financial statements:

(a) An income statement for the year ended 31 March 2016.

(b) A statement of financial position as at the same date.

(Total: 20 marks)

9. In September 2015, Breeze Ltd planned to produce a new product called "Product X". The business planned to produce 54,000 units of "Product X" each year in 2016 and 2017.

Details of the budget (which is applicable for both 2016 and 2017) was as follows:

For each year:

Production and sales	54,000 units
Sales revenue	$1,242,000
Direct materials	$81,000
Direct labour	$108,000
Variable production overheads per unit	$1
Variable marketing overheads per unit	$1
Fixed production overheads	$270,000
Fixed marketing overheads	$250,000

On 1 January 2018, the actual production and sales detail of Product X was provided as follows:

(i) Production level for 2016 and 2017 was 60,000 and 55,000 units, respectively.

(ii) Sales level for 2016 and 2017 was 45,000 and 60,000 units, respectively.

(iii) In 2016, fixed overheads incurred were exactly the same as budgeted.

(iv) In 2017, fixed production overheads were 20% higher than the budgeted amount; fixed marketing overheads were the same as budgeted.

(v) The budgeted selling price per unit and variable costs per unit of Product X were accurate.

REQUIRED:

Prepare the income statements for the years ended 31 December 2016 and 31 December 2017 using the absorption and marginal costing method, respectively.

(Total 20 marks)

END OF PAPER