

FANLING LUTHERAN SECONDARY SCHOOL
2017–2018 S6 Mock Examination
BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A
Accounting Module
Marking Scheme

SECTION A (24 marks)

1.

Cash Book											
Date		Details	Discount	Cash	Bank	Date		Details	Discount	Cash	Bank
2017			\$	\$	\$	2013			\$	\$	\$
Sept	1	Balance b/d		1,111		Sept	1	Balance b/d			2,222
"	2	Joseph Co (W1)	60		1,940	"	6	Nina Co (W2)	105		3,395
"	15	Bank		2,500		"	11	Furniture		1,000	
"	30	Balance c/d			17,677	"	15	Cash			2,500
						"	15	Drawings			2,500
						"	18	Best Furniture Co (W3)			9,000
						"	23	Wages		2,100	
						"	30	Balance c/d		511	
			60	3,611	19,617				105	3,611	19,617

(W1) Amount owed by Joseph Co = $\$1,940 \div (1 - 3\%) = \$2,000$

Discounts allowed = $\$2,000 - \$1,940 = \$60$

(W2) Discounts received from Nina Co = $\$3,500 \times 3\% = \105

(W3) Amount owed to Best Furniture Co = $\$10,000 - \$1,000$ (deposit) = $\$9,000$

(Total 8 marks)

2.

(a) 2014 Depreciation expenses = $\$50,000 \times 430,000/2,000,000 = \$10,750$

2015 Depreciation expenses = $\$50,000 \times 480,000/2,000,000 = \$12,000$

2016 Depreciation expenses = $\$50,000 \times 460,000/2,000,000 = \$11,500$

2017 Depreciation expenses = $\$50,000 \times 420,000/2,000,000 = \$10,500$

(b) (i)

Accumulated Depreciation: Printers

2017			\$	2017			\$
Jun	30	Disposal: Printers	44,750	Jan	1	Balance b/f	34,250
				Jun	30	Depreciation: Printers ($420,000 \times \$0.025$)	10,500
			44,750				44,750

(ii)

Disposal: Printers

2017			\$	2017			\$
Jul	1	Printers	50,000	Jul	1	Accumulated depreciation: Printers	44,750
Dec	31	Profit and loss — Profit on disposal	4,750	"	1	Cash	10,000
			54,750				54,750

(Total 8 marks)

3.

- (a) (i) \$400,000
- (ii) \$480,000 / 2 = \$240,000
- (iii) \$89,000
- (b) (i) mixed cost
- (ii) opportunity cost
- (iii) sunk cost
- (iv) fixed cost
- (v) variable cost

(Total 8 marks)

(d)

Total costs of making or buying VC1:		
	Make	Buy
	\$	\$
Sales (20,000 × \$480)	480	480
Direct materials (20,000 × \$140)	140	—
Direct labour (20,000 × \$80)	80	—
Variable manufacturing overheads (20,000 × \$60)	60	—
Factory manager's salary	12	2
Factory rent and rates	8	8
Purchase cost of VC1	—	278.5
Sale proceeds of machinery	—	(4)
Total costs	300	293.5
Net profit	180	186.5

(d)

Total costs of making or buying VC1:		
	Make	Buy
	\$	\$
Direct materials (20,000 × \$140)	2,800,000	—
Direct labour (20,000 × \$80)	1,600,000	—
Variable manufacturing overheads (20,000 × \$60)	1,200,000	—
Factory manager's salary	240,000	40,000
Purchase cost of VC1	—	5,750,000
Sale proceeds of machinery	—	(80,000)
Total relevant costs	5,840,000	5,710,000

SECTION B (36 marks)

4. (a) $\text{Contribution margin for each unit of VC1} = \$480 - \$140 - \$80 - \$60 = \200

(b) $\text{Total fixed cost} = \$240,000 + \$160,000 = \$400,000$

$\text{The breakeven sale quantity of VC1} = \$400,000 / \$200 = 2,000$

$\text{The breakeven sales revenue} = 2,000 \times \$480 = \$960,000$

(c) $\text{Margin of safety (in revenue)} = 20,000 \times \$480 - \$960,000 = \$8,640,000$

$\text{Margin of safety (in percentage)} = \$8,640,000 \div 20,000 \times \$480 = 90\%$

(d)

Total costs of making or buying VC1:		
	Make	Buy
	\$	\$
Sales ($20,000 \times \$480$)	9,600,000	9,600,000
Direct materials ($20,000 \times \$140$)	2,800,000	—
Direct labour ($20,000 \times \$80$)	1,600,000	—
Variable manufacturing overheads ($20,000 \times \$60$)	1,200,000	—
Factory manager's salary	240,000	40,000
Factory rent and rates	160,000	160,000
Purchase cost of VC1	—	5,750,000
Sale proceeds of machinery	—	(80,000)
Total costs	6,000,000	5,870,000
Net profit	3,600,000	3,730,000

As the cost of buying VC1 (\$5,870,000) would be \$130,000 lower than making them (\$6,000,000),

Vicky Ltd should buy VC1 from Iris Ltd.

(e) (i) Direct materials

(ii) Factory rent and rates

(Total 14 marks)

5. (a)

Cash Book (Bank)

	\$		\$
Balance b/d	13,579	Electricity fees (ii)	3,228
Joe Wang — Direct transfer (iv)	2,500	Bank overdraft interest (iii)	320
Lily Lam (viii)	3,188	Bank charges (v)	400
Dividends — Direct credit (x)	60	Cash book balance overstated (vi)	900
Sales (\$18,500 – \$1,850) (xiii)	16,650	David Chan (vii)	23,456
Balance c/d	1,107	Fire insurance — Standing order (xi)	6,000
		John Tam (\$1,390 × 2) (xii)	2,780
	37,084		37,084

(b)

Jerry Lam

Bank Reconciliation Statement as at 30 September 2017

	\$	\$
Adjusted overdraft balance as per cash book		(1,107)
Add Unpresented cheques (i)		
Chan's Co	5,150	
Lily Lam	3,188	
John Tam	1,390	9,728
		8,621
Less Uncredited cheques (ix)		(22,200)
Overdraft balance as per bank statement		(13,579)

(c) No, the bank reconciliation statement is not a financial statement.

Examples of financial statements: Statement of financial position, income statement

(Total 12 marks)

6. (a)

Revaluation

	\$	\$		\$
Premises (W1)		50,000	Furniture and fixtures (W3)	120,000
Motor vehicles (W2)		19,200		
Inventory (\$123,450 – \$120,000)		3,450		
Allowance for doubtful debts (\$96,000 × 4%)		3,840		
Profit on revaluation –				
Capital: Chan (1/2)	21,755			
Capital: Lee (1/2)	21,755	43,510		
		120,000		120,000

W1: Decrease in the net book value of premises = (\$5,000,000 – \$2,450,000) – (\$5,000,000 × 50%) = \$50,000

W2: Decrease in the net book value of motor vehicles = (\$300,000 – \$108,000) × (1 – 90%) = \$19,200

W3: Increase in the net book value of furniture and fixtures = (\$600,000 × 70%) – (\$600,000 – \$300,000) = \$120,000

(b)

Capital

	Chan	Lee	Cheung		Chan	Lee	Cheung
	\$	\$	\$		\$	\$	\$
Goodwill (6 : 4)	60,000	—	40,000	Balances b/f	1,198,215	1,198,215	—
Bank (\$1,269,970 × 4/5)	—	1,015,976	—	Revaluation: Share of profit	21,755	21,755	—
Loan from Lee (\$1,269,970 × 1/5)	—	253,994	—	Goodwill (1 : 1)	50,000	50,000	—
Balance c/d	1,209,970	—	760,000	Bank	—	—	800,000
	1,269,970	1,269,970	800,000		1,269,970	1,269,970	800,000

Goodwill Adjustment

Partner	Goodwill shared in old ratio	Goodwill shared in new ratio
Chan	(1/2) \$50,000	(1/2)\$60,000
Lee	(1/2) \$50,000	—
Cheung	—	(1/2)\$40,000
	\$100,000	\$100,000

(Total 10 marks)

SECTION C (20 marks)

7. (a) (i) The business entity concept was violated. According to this concept, only transactions that affect the business should be recorded in the books of a business. Since Nancy's private apartment was not related to the business, the rent paid in advance on her apartment should not be recorded in the books of the business as prepaid rent.
- Correct accounting entries:
- | | |
|----|-------------------|
| Dr | Drawings \$10,000 |
| Cr | Bank \$10,000 |
- (ii) The historical cost principle was violated. According to this principle, assets should be valued at their original cost of purchase or cost of production. The valuation of these assets should continue to be based on cost (less accumulated depreciation for non-current assets) rather than current market value. Therefore, the equipment should not have been revalued. No accounting entries are required as the equipment should not be revalued.
- (iii) The realisation principle was violated. According to this principle, revenue should not be recorded until the seller has completed a sale or performed a service. As the goods were not delivered by the financial year-end date, no sales should be recognised and recorded in the books.
- Correct accounting entries:
- | | |
|----|----------------------------|
| Dr | Bank \$85,000 |
| Cr | Unearned revenues \$85,000 |
- (iv) The prudence concept was violated. According to this concept, inventory should be valued using the lower of cost and net realisable value method. As the net realisable value of the inventory item was negative (i.e., the \$600 cost of repairing the item exceeds its selling price of \$500), the value of this item is zero and should be written off.
- Accounting entries to correct the error:
- | | |
|----|---|
| Dr | Profit and loss — Closing inventory \$1,000 |
| Cr | Inventory \$1,000 |

(b)

Nancy Chow
Statement of Corrected Net Profit for the year ended 30 June 2017

	\$	\$
Original net profit		39,888
Add Depreciation on equipment overstated (ii) ($\$1,000,000 \times 20\% \times 10\%$)	20,000	
Closing inventory understated (iii)	22,000	42,000
		81,888
Less Gain on revaluation of equipment reversed (ii)	200,000	
Sales overstated (iii)	85,000	
Closing inventory overstated (iv)	1,000	286,000
Corrected net loss		(204,112)

(c)

Nancy Chow
Statement of Financial Position as at 30 June 2017

	\$	\$	\$
		<i>Accumulated</i>	<i>Net</i>
<i>Non-current assets</i>	<i>Cost</i>	<i>depreciation</i>	<i>book value</i>
Equipment	2,800,000 *	380,000 **	2,420,000
Motor vehicles	420,000	268,800	151,200
	<u>3,220,000</u>	<u>648,800</u>	<u>2,571,200</u>
<i>Current assets</i>			
Trade receivables	100,000		
Less Allowance for doubtful accounts	6,000	94,000	
Inventory (\$50,000 + \$22,000 – \$1,000)		71,000	
Prepaid expenses (\$43,313 – \$10,000)		33,313	
Cash at bank		21,998	
		<u>220,311</u>	
<i>Less Current liabilities:</i>			
Bank loan	200,000		
Trade payables	60,000		
Unearned revenues	85,000		
Accrued expenses	45,869	390,869	
Net current liabilities			(170,558)
			<u>2,400,642</u>
<i>Financed by:</i>			
<i>Capital</i>			
Balance as at 1 July 2016			2,626,875
Less Net loss for the year			204,112
			<u>2,422,763</u>
Less Drawings (\$12,121 + \$10,000)			22,121
			<u>2,400,642</u>

* \$3,000,000 – \$200,000

** \$400,000 – \$20,000

(Total: 20 marks)

8 (a)

The Journal			
	Details	Dr	Cr
		\$	\$
(i)	Motor vehicles	4,500	
	Carriage inwards		4,500
(ii)	Drawings	8,000	
	Water and electricity		8,000
(iii)	Suspense	1,234	
	Sales		1,234
(iv)	Suspense (\$1,883 + \$1,883)	3,766	
	Discounts received		1,883
	Discounts allowed		1,883

(b)

Suspense							
2017			\$	2017			\$
Oct	31	Sales (iii)	1,234	Oct	31	Balance b/d	5,000
"	31	Discounts received (iv)	1,883				
"	31	Discounts allowed (iv)	1,883				
			5,000				5,000

(c) The business entity concept was violated.

If this error was not corrected, the reported net profit for the year would be understated by \$8,000, as water and electricity expenses would be overstated by \$8,000.

(d)

Johnny Co
Income Statement for the year ended 31 October 2017

	\$	\$
Sales (\$5,818,423 + \$1,234)		5,819,657
Less Returns inwards		10,333
		5,809,324
Less Cost of goods sold:		
Opening inventory	147,689	
Add Purchases	2,335,000	
Carriage inwards (\$38,000 – \$4,500)	33,500	
	2,516,189	
Less Returns outwards	12,121	
	2,504,068	
Less Closing inventory	113,420	2,390,648
Gross profit		3,418,676
Add Other revenues:		
Discounts received (\$21,300 + \$1,883)		23,183
		3,441,859
Less Expenses:		
Depreciation: Buildings (\$2,000,000 × 5%)	100,000	
Office equipment [(\$1,200,000 – \$432,000) × 20%]	153,600	
Motor vehicles [(\$800,000 + \$4,500) × 20%]	160,900	
Allowance for doubtful accounts [(\$135,000 – \$2,000) × 3%]	3,990	
Bad debts	2,000	
Discounts allowed (\$5,500 – \$1,883)	3,617	
Carriage outwards	12,000	
Wages and salaries (\$1,583,000 + \$1,998)	1,584,998	
Water and electricity (\$118,000 – \$8,000 + \$3,121)	113,121	
Rates and management fees (\$180,000 – \$20,000)	160,000	2,294,226
Net profit		1,147,633

(Total: 20 marks)