

FANLING LUTHERAN SECONDARY SCHOOL
2018–2019 S6 Mock Examination
BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A
Accounting Module
Marking Scheme

SECTION A (24 marks)

1. (i) Period of insurance coverage: 1 November 2017–31 October 2019 (24 months)

Period of insurance coverage for the year ended: 1 November 2017–30 June 2018 (8 months)

insurance premiums to be included in the income statement for the year ended 30 June 2018:

$$= \$24,000 \times 8/24$$

$$= \$8,000$$

- (ii) Amount of allowance for doubtful debts required as at 30 June 2018:

$$= \$80,000 \times 4\%$$

$$= \$3,200$$

Decrease in the allowance for doubtful debts for the year ended 30 June 2018:

$$= \$4,000 - \$3,200$$

$$= \$800$$

— The decrease in the allowance for doubtful debts of \$800 should be shown as other revenues in the income statement for the year ended 30 June 2018.

— The allowance for doubtful debts of \$3,200 should be shown as a contra item against the trade receivables total of \$80,000 in the statement of financial position as at 30 June 2018.

(Total 6 marks)

- 2 (a)

Capital Expenditure Incurred in the Acquisition of the Store

	\$	\$
Asking price		500,000
Less Discount (i) ($\$500,000 \times 2\%$)		10,000
		490,000
Add Repairs (ii)	6,000	
Legal fees (iv)	10,000	16,000
Total capital expenditure incurred		506,000

- (b) Depreciation on the store for the year ended 30 September 2018:

$$= [\$506,000 \times (1 - 10\%)] \times 10\%$$

$$= \$45,540$$

(Total 5 marks)

Gary Ltd
Income Statement for the year ended 31 March 2018

	\$	\$
Sales [(30,000 – 1,000) × \$500]		14,500,000
<i>Less Cost of goods sold:</i>		
Direct materials (30,000 × 5 × \$12)	1,800,000	
Direct labour (30,000 × 2 × \$35)	2,100,000	
Variable manufacturing overheads (30,000 × \$10)	300,000	
Fixed manufacturing overheads (\$50,000 × 12)	600,000	
	4,800,000	
<i>Less Closing inventory (\$4,800,000 × ^{1,000}/_{30,000})</i>	160,000	4,640,000
Gross profit		9,860,000
<i>Less Marketing costs: Variable (29,000 × \$10)</i>	290,000	
Fixed (\$1,000,000 × 4)	4,000,000	4,290,000
Net profit		5,570,000

(Total 6 marks)

4.

Cash Book											
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2018			\$	\$	\$	2018			\$	\$	\$
Jan	1	Balances b/d		10,008	15,193	Jan	2	Adam Co	400		7,600
"	9	Sales		2,500		"	5	Bee Co (W1)	200	9,800	
"	20	Carol Co (W2)	10	490		"	28	Bank		2,198	
"	28	Cash (W3)			2,198	"	31	Balances c/d		1,000	9,791
			10	12,998	17,391				600	12,998	17,391

(W1) Discounts received from Bee Co = \$10,000 × 2% = \$200

(W2) Cash paid to Carol Co = \$500 – \$10 = \$490

(W2) Deposit cash = (\$10,008 + 2,500 + 490 – \$9,800 – \$1,000) = \$2,198

(Total 7 marks)

Cash Book											
Date		Particulars	Discount	Cash	Bank	Date		Particulars	Discount	Cash	Bank
2018			\$	\$	\$	2018			\$	\$	\$
Jan	1	Balances b/d		10,008	15,193	Jan	2	Adam Co	400		7,600
"	9	Sales		2,500		"	5	Bee Co (W1)	200	9,800	
"	20	Carol Co (W2)	10	500		"	28	Bank		2,208	
"	28	Cash (W3)			2,208	"	31	Balances c/d		1,000	9,801
			10	13,008	17,401				600	13,008	17,401

SECTION B (36 marks)

5. (a)

Cash at bank

	\$		\$
Balance b/d	59,652	Rates—Autopay (ii)	24,000
Sunny Limited—Dishonoured cheque (i)	440	Bank charges—Direct debit (v)	1,250
Deposit interest—Direct Credit (iii)	690	C C Ltd—Dishonoured cheque (vi)	210
Chan's Co—Direct deposit (iv)	5,000	Trade subscription fees—Standing order (ix)	20,000
Commission revenue—Direct credit (viii)	1,600	Balance c/d	21,922
	67,382		67,382

(b)

Celia Chan**Bank Reconciliation Statement as at 30 September 2018**

	\$
Balance as per updated cash book	21,922
Add: Unpresented cheques—K&K Limited (i)	2,520
	24,442
Less: Uncredited cheques—Candy Ltd (vii)	(5,689)
Balance as per bank statement	18,753

- (b) — The drawer did not have enough money in the current account for the payment.
- There was no signature on the cheque, or the signature did not match the bank's records.
- The amount in words differed from the amount in figures.
- The cheque was not dated.
- The cheque was a stale cheque.
- The cheque was a post-dated cheque.
- The drawer's account had been closed.
- Alterations to the cheque had not been countersigned by the drawer.

(Total 11 marks)

6.

(a) $\text{Contribution margin per unit for Apple} = \$600 - 3 \times \$40 - 48 \times \$5 = \$240$

$\text{Contribution margin per unit for Banana} = \$1,000 - 2 \times \$40 - 80 \times \$5 = \$520$

$\text{Contribution margin per unit for Cherry} = \$1,440 - 1 \times \$40 - 208 \times \$5 = \$360$

(b) (i) $\text{Contribution per direct labour hour for Apple} = \$240 \div 3 \text{ hours} = \$80 \text{ per direct labour hour}$

$\text{Contribution per direct labour hour for Banana} = \$520 \div 2 \text{ hours} = \$260 \text{ per direct labour hour}$

$\text{Contribution per direct labour hour for Cherry} = \$360 \div 1 \text{ hour} = \$360 \text{ per direct labour hour}$

Therefore, production priority should be Cherry, Banana and Apple.

Optimum production plan : 1. Produce 2,000 units of Cherry

2. Produce 2,000 units of Banana

Direct labour hours left for producing Apple = $9,000 - 2,000 - 4,000 = 3,000 \text{ hours}$

The number of Apple to be produced = $3,000 / 3 = 1,000 \text{ units}$

Optimum production plan : 1. Produce 2,000 units of Cherry, 2. Produce 2,000 units of Banana

3. Produce 1,000 units of Apple

(ii) $\text{Contribution per gram of direct materials for Apple} = \$240 \div 48 \text{ grams} = \5 per gram

$\text{Contribution per gram of direct materials for Banana} = \$520 \div 80 \text{ grams} = \6.5 per gram

$\text{Contribution per gram of direct materials for Cherry} = \$360 \div 208 \text{ grams} = \1.73 per gram

Therefore, production priority should be Banana, Apple and Cherry.

Optimum production plan : 1. Produce 2,000 units of Banana

Direct materials left for producing Apple = $250,000 - 2,000 \times 80 \text{ g} = 90,000 \text{ g}$

The number of Apple to be produced = $90,000 / 48 = 1,875 \text{ units}$

Optimum production plan : 1. Produce 2,000 units of Banana, 2. Produce 1,875 units of Apple

(Total 13 marks)

7. (a)

Revaluation

	\$		\$	\$
Premises (\$1,200,000 – \$500,000)	700,000	Allowance for doubtful debts (W1)		150
Furniture and fittings (\$625,000 × 50%)	312,500	Loss on revaluation—		
Motor vehicles [\$138,000 – (\$200,000 × 50%)]	38,000	Capital: Chan ($\frac{5}{10}$)	528,365	
Inventory (\$22,880 – \$16,500)	6,380	Capital: Pang ($\frac{3}{10}$)	317,019	
		Capital: Au ($\frac{2}{10}$)	211,346	1,056,730
	<u>1,056,880</u>			<u>1,056,880</u>

W1: Allowance for doubtful debts = [\$450 – (\$15,000 × 2%)]

(b)

Capital

	Chan	Pang	Au		Chan	Pang	Au
	\$	\$	\$		\$	\$	\$
Goodwill (5 : 3)	126,250	75,750	—	Balances b/f	1,000,000	600,000	400,000
Revaluation: Share of profit	528,365	317,019	211,346	Goodwill (5:3:2)	101,000	60,600	40,400
Current	—	—	109,000				
Loan from Au	—	—	120,054				
Balances c/d	446,385	267,831	—				
	<u>1,101,000</u>	<u>660,600</u>	<u>440,400</u>		<u>1,101,000</u>	<u>660,600</u>	<u>440,400</u>

Goodwill Adjustment

Partner	Goodwill shared in old ratio	Goodwill shared in new ratio
Chan	(5/10)101,000	(5/8)126,250
Pang	(3/10)60,600	(3/8)75,750
Au	(2/10)40,400	—
	<u>\$202,000</u>	<u>\$202,000</u>

(Total 12 marks)

SECTION C (20 marks)

8 (a)

The Journal			
	Details	Dr	Cr
		\$	\$
(i)	Suspense	1,000	
	Profit and loss — Commission revenue (\$500 × 2)		1,000
(ii)	Profit and loss — Closing inventory $\{[\$3,456 \div (1 + 100\%)] - \$100\}$	1,628	
	Inventory		1,628
(iii)	Drawings	80,000	
	Profit and loss — Rent expense		80,000
(iv)	Profit and loss — Discounts allowed	1,250	
	Profit and loss – Sales		1,250
(v)	Profit and loss — Sales	5,000	
	Nina Co (trade debtors)		5,000
	Drawings $[\$5,000 \div (1 + 100\%)]$	2,500	
	Profit and loss — Purchases		2,500
(vi)	Suspense	1,250	
	Profit and loss — Sales		1,250
(vii)	Profit and loss — Rent and rates (\$12,000 + \$12,000)	24,000	
	Accrued expenses		12,000
	Prepaid expenses		12,000
(viii)	Profit and loss — Water and electricity (\$500 + \$500)	1,000	
	Suspense		1,000

(b)

Suspense			
	\$		\$
Profit and loss—Commission revenue (i)	1,000	Balance b/d (bal. fig.)	1,250
Profit and loss—Sales (vi)	1,250	Profit and loss—Water and electricity (viii)	1,000
	2,250		2,250

(c)

Lily Co Statement of Corrected Net Profit for the year ended 31 October 2018			
	\$		\$
Net profit per draft accounts			123,456
<i>Add</i> Commission revenue understated (i)	1,000		
Rent expense overstated (iii)	80,000		
Sales understated (iv)	1,250		
Purchase overstated (v)	2,500		
Sales undercast (vi)	1,250		86,000
			209,456
<i>Less</i> Inventory overstated (ii)	1,628		
Discounts allowed understated (iv)	1,250		
Sales overstated (v)	5,000		
Rent and rates understated (vii)	24,000		
Electricity fees understated (viii)	1,000		32,878
Corrected net profit			176,578

(Total 20 marks)

Ivan Ltd
Income Statement for the year ended 31 October 2018

	\$	\$
Sales (\$7,470,020 + \$5,000)		7,475,020
Less Returns inwards		7,338
		7,467,682
Less Cost of goods sold:		
Opening inventory	412,000	
Add Purchases	1,890,540	
Carriage inwards	38,980	
	2,341,520	
Less Returns outwards	12,198	
	2,329,322	
Less Closing inventory	115,558	2,213,764
Gross profit		5,253,918
Add Other revenues:		
Commission revenue		165,388
		5,419,306
Less Expenses:		
Salaries and wages (\$3,736,004 – \$5,000)	3,731,004	
Other operating expenses	66,000	
Debenture interest (\$600,000 × 10%)	60,000	
Increase in allowance for doubtful debts [(\$456,710 × 10%) – \$3,180]	42,491	
Directors' remuneration	140,000	
Depreciation: Equipment (\$8,000,000 × 10%)	800,000	
Furniture [(\$1,250,000 – \$396,000) × 30%]	256,200	5,095,695
Profit before tax		323,611
Less Income tax expense		42,540
Profit after tax		281,071
Add Retained earnings brought forward		1,107,806
		1,388,877
Less Appropriations:		
Interim dividend	59,600	
Transfer to general reserve	100,000	159,600
Retained earnings carried forward		1,229,277

(b)

Ivan Ltd
Statement of Financial Position as at 31 October 2018

	\$	\$	\$
		Accumulated	Net book
Non Current assets	Cost	depreciation	value
Equipment	8,000,000	1,780,000	6,220,000
Furniture	1,250,000	652,200	597,800
	<u>9,250,000</u>	<u>2,432,200</u>	<u>6,817,800</u>
Current assets			
Inventories		115,558	
Accounts receivable	456,710		
Less Allowance for doubtful accounts(\$456,710 × 10%)	45,671	411,039	
		<u>526,597</u>	
Less Current Liabilities			
Trade payables	681,080		
Accrued expenses	60,000		
Tax payable	42,540		
10% debentures	600,000		
Bank overdraft	<u>51,500</u>	<u>1,435,120</u>	
Net Current assets			<u>(908,523)</u>
			<u>5,909,277</u>
Financed by:			
Capital and reserves			
Ordinary share capital (\$2,980,000 + \$1,000,000)			3,980,000
General reserve (\$600,000 + \$100,000)			700,000
Retained earnings			<u>1,229,277</u>
			<u>5,909,277</u>

(W1) Net book value of non-current assets:

	\$	\$	\$
	Cost	Accumulated depreciation	Net book value
Equipment	8,000,000	1,780,000 *	6,220,000
Furniture	<u>1,250,000</u>	<u>652,200 **</u>	<u>597,800</u>
	<u>9,250,000</u>	<u>2,432,200</u>	<u>6,817,800</u>

*\$980,000 + \$800,000 = \$1,780,000

**\$396,000 + \$256,200 = \$652,200

(W2) Trade receivables after deducting the allowance for doubtful debts:

$$\$456,710 - (\$456,710 \times 10\%) = \$411,039$$

(Total 20 marks)

Ivan Ltd
Income Statement for the year ended 31 October 2018

	\$	\$
Sales (\$7,470,020 + \$5,000)		7,475,020
Less Returns inwards		7,338
		7,467,682
Less Cost of goods sold:		
Opening inventory	412,000	
Add Purchases	1,890,540	
Carriage inwards	38,980	
	2,341,520	
Less Returns outwards	12,198	
	2,329,322	
Less Closing inventory	115,558	2,213,764
Gross profit		5,253,918
Add Other revenues:		
Commission revenue		165,388
		5,419,306
Less Expenses:		
Salaries and wages (\$3,736,004 – \$5,000)	3,731,004	
Other operating expenses	66,000	
Debenture interest (\$600,000 × 10%)	60,000	
Increase in allowance for doubtful debts [(\$456,710 × 10%) – \$3,180]	42,491	
Directors' remuneration	140,000	
Depreciation: Equipment (\$8,000,000 × 10%)	800,000	
Furniture [(\$1,250,000 – \$396,000) × 30%]	256,200	5,095,695
Profit before tax		323,611
Less Income tax expense		42,540
Profit after tax		281,071
Add Retained earnings brought forward		1,107,806
		1,388,877
Less Appropriations:		
Share dividend (59,600 + 89,400)	149,000	
Transfer to general reserve	100,000	249,000
Retained earnings carried forward		1,139,877

(b)

Ivan Ltd
Statement of Financial Position as at 31 October 2018

	\$	\$	\$
		Accumulated	Net book
Non Current assets	Cost	depreciation	value
Equipment	8,000,000	1,780,000	6,220,000
Furniture	1,250,000	652,200	597,800
	<u>9,250,000</u>	<u>2,432,200</u>	<u>6,817,800</u>
Current assets			
Inventories		115,558	
Accounts receivable	456,710		
Less Allowance for doubtful accounts (\$456,710 × 10%)	45,671	411,039	
		<u>526,597</u>	
Less Current Liabilities			
Trade payables	681,080		
Accrued expenses	60,000		
Tax payable	42,540		
10% debentures	600,000		
Bank overdraft	51,500	1,435,120	
Net Current assets			(908,523)
			<u>5,909,277</u>
Financed by:			
Capital and reserves			
Ordinary share capital (\$2,980,000 + \$1,000,000)			3,980,000
General reserve (\$600,000 + \$100,000)			700,000
Retained earnings			1,139,877
Proposed dividend			89,400
			<u>5,909,277</u>