FANLING LUTHERAN SECONDARY SCHOOL
2020–2021 S6 Mock Examination
BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2
Marking Scheme

SECTION A (24 marks)

1. (a)

Amy Limited
Trial balance as at 30 September 2020

	Dr	Cr
	$	$
Motor vehicles, at cost	1,000,000	
Motor vehicles, accumulated depreciation		400,000
Inventory	69,080	
Accrued expenses		31,500
Retained earnings		368,500
Share capital		469,410
Trade receivables	200,330	
	1,269,410	1,269,410

(b) — Even if a trial balance agrees, errors may still exist.

— A trial balance is not able to detect all errors and omissions in the accounting records.

(Total 6 marks)

2.

(a)	(1)	Motor vehicles	(2)	General ledger	(3)	Cash at bank	(4)	Cash book
(b)	(5)	Trade payables	(6)	Purchases ledger	(7)	Returns outwards	(8)	General ledger
(c)	(9)	Cash at bank	(10)	Cash book	(11)	Bank loan	(12)	General ledger
(d)	(13)	Trade receivables	(14)	Sales ledger	(15)	Sales	(16)	General ledger

(Total 8 marks)

3. (a) Contribution margin for each unit of the product = $100 – $7 – $9 – $15 – $20 = $50

(b) Sale quantity = ($50,000 + $150,000 + $100,000) / $50 = 6,000 units

Sale revenue = 6,000 x $100 = $600,000

(c) Total profit at original selling price: $50 × 5,000 – $250,000 = $0

Total profit at new price: ($50 + $100) × 2,000 – $250,000 = $50,000

As the profit under the new price is higher, Cheung's Co should raise the price.

(Total 5 marks)

4. (a)

Cash at bank

	$		$
Balance b/d	32,130	Water fees — Direct debit	1,706
Lam Kee — Credit transfer	8,000	Eric Ltd —Dishonoured cheque	1,590
Cheung's Ltd ($6,150 × 2)	12,300	Bank charges	400
		Balance c/d	48,734
	52,430		52,430

Lee & Co
Bank Reconciliation Statement as at 31 October 2020

	$
Balance as per bank statement (balancing figure)	41,543
Add: Uncredited deposit — Ada Co	8,041
	49,584
Less: Unpresented cheque — Leung's Co	850
Balance as per updated cash book	48,734

(Total 5 marks)

SECTION B (24 marks)

5 (a)

Revaluation

	$		$
Inventory ($88,000 – $30,000)	58,000	Furniture and fixtures ($1,000,000 – $600,000)	400,000
Allowance for doubtful accounts($120,000 × 5%)	6,000		
Bank — Revaluation fees	2,500		
Gain on revaluation —			
Capital: Leung ($333,500 × 70%)	233,450		
Capital: Chu ($333,500 × 30%)	100,050		
	400,000		400,000

Capital

	Leung	*Chu*	*Lau*		*Leung*	*Chu*	*Lau*
	$	$	$		$	$	$
Goodwill	50,000	30,000	20,000	Balances b/d	600,000	94,000	–
Balance c/d	1,000,000	600,000	400,000	Revaluation	233,450	100,050	–
				Goodwill	70,000	30,000	–
				Bank	146,550	405,950	420,000
	1,050,000	630,000	420,000		1,050,000	630,000	420,000

(b)
— Quality of goods and services provided
— Quality of the management and employees
— Reputation
— Customer loyalty

(Total 12 marks)

6 (a)

Office equipment

	$		$
Balance b/d	2,400,000	Disposal: Office equipment (i)	60,000
		Disposal: Office equipment (ii) ($1,000 × 10)	10,000
		Balance c/d	2,330,000
	2,400,000		2,400,000

(b)

Office equipment: accumulated depreciation

	$		$
Disposal: Office equipment (i) [$6,000 + ($6,000 × 2/12)]	7,000	Balance b/d	240,000
Disposal: Office equipment (ii) [$1,000 + ($1,000 × 6/12]	1,500	Depreciation expenses (W)	234,500
Balance c/d	466,000		
	474,500		474,500

Depreciation expenses: = $6,000 × 2/12 + $1,000 × 6/12 + (2,330,000 ÷ 10) = 1,000 + 500 + 233,000 = 234,500

(c)

Disposal: Office equipment

	$		$
Office equipment (i)	60,000	Accumulated depreciation: Office equipment (i)	7,000
Office equipment (ii)	10,000	Accumulated depreciation: Office equipment (ii)	1,500
		Bank ($60,000 – $7,000 + $2,000)	55,000
		Insurance receivable[($10,000 – $1,500) × 50%]	4,250
		Loss on disposal	2,250
	70,000		70,000

(d)

The Journal

Details	Dr	Cr
	$	$
Office equipment	10,000	
Bank		10,000

(Total 12 marks)

7 (a)

Andy Co
Income Statement for the year ended 31 December 2019

	$	$
Sales (19,000 × $360)		6,840,000
Less Variable costs of goods sold		
Direct labour (20,000 × $50)	1,000,000	
Direct materials (20,000 × $90)	1,800,000	
Variable manufacturing overheads (20,000 × $10)	200,000	
Less: Closing inventory [($3,000,000 / 20,000) x 1,000]	150,000	2,850,000
Product contribution margin		3,990,000
Less: Commission (19,000 × $360 × 10%)		684,000
Contribution		3,306,000
Less Fixed manufacturing overheads		(600,000)
Fixed selling expenses ($40,000 × 12)		(480,000)
Net profit		2,226,000

Fixed component in the total manufacturing overheads per unit = $600,000 ÷ 20,000 = $30

Variable component = $40 – $30 = $10

(b) (i) Value of closing inventory under marginal costing system= ($3,000,000 / 20,000) x 1,000 = $150,000

Value of closing inventory under absorption costing system = ($3,000,000 + 600,000/20,000) x 1,000 = $180,000

(ii)
- Under the marginal costing system, fixed manufacturing overheads would be treated as period costs and thus are not included in the valuation of closing inventory.
- Under the absorption costing system, a portion of the fixed manufacturing overheads would be added to product cost at the rate of $30 per unit.

(c)

	$
Cost of purchasing the components (per unit)	(10)
Less: Variable manufacturing overheads saved per unit ($10 × 10%)	1
Direct labour cost saved per unit ($50 × 15%)	7.5
Direct materials cost saved per unit	1
Cost saved per unit (by purchasing the components)	(0.5)

Andy Co should not accept the offer as purchasing the components would increase the manufacturing cost per unit by $0.5.

(Total 12 marks)

SECTION C (20 marks)

8 (a) (i)

Apple and Orange
Income Statement for the year ended 31 December 2019

		$		$
Sales ($460,000 + $4,567 + $17,113)				481,680
Less: Cost of goods sold				
	Purchases ($222,500 + $1,333 + $26,256)	250,089		
	Less Inventory destroyed	1,000		
		249,089		
	Less Closing Inventories	87,000		162,089
Gross profit				319,591
Less: Expenses				
	Loan interest ($60,000 × 12% × 1/12)	600		
	Depreciation: Motor vehicles ($200,000 × 20%)	40,000		
	Loss on inventory destroyed [$1,000 × (1 – 60%)]	400		
	Salaries ($369,000 + $30,000)	399,000		
	Rent [($260,000 – $26,000) × 12/13]	216,000		656,000
Net loss				(336,409)

(ii)

Apple and Orange
Statement to Calculate Working Capital as at 31 December 2019

		$		$
Current assets				
Inventory		87,000		
Trade receivables		17,113		
Prepaid rent ($18,000 + $26,000)		44,000		
Insurance compensation receivable ($1,000 × 60%)		600		
Cash at bank ($465,500 + $4,567 – $1,333)		468,734		617,447
Less	*Current liabilities:*			
	Trade payables	26,256		
	Accrued salaries	30,000		
	Accrued interest	600		
	Deposits received from customers	5,000		
	Bank loan	60,000		121,856
Working capital as at 31 December 2019				495,591

(b) — Sufficient current assets to cover its current liabilities.

— Huge bank balance which may indicate poor cash management.

— Repaying the bank loan earlier should be considered to avoid interest expenses.

(d) Total assets turnover = $481,680 ÷ ($617,447 +$200,000 – $40,000)

= 0.62 times

(Total 20 marks)

9 (a)

The Journal

	Details	Dr	Cr
		$	$
(i)	Cash at bank	100	
	Trade payables		100
(ii)	Trade receivables	25,000	
	Deposit from customers		25,000
	Retained earnings	2,200	
	Allowance for doubtful accounts [($800,000 – $14,000) × 20% – $155,000]		2,200
(iii)	Retained earnings	14,000	
	Trade receivables		14,000
	Inventory ($14,000 ÷ 140%)	10,000	
	Retained earnings		10,000
(iv)	Retained earnings [$1,250 – ($1,000 – $100)]	350	
	Inventory		350
(v)	Short-term bank loan ($270,000 – $240,000)	30,000	
	Motor vehicles		30,000
	Motor vehicles: Accumulated depreciation	1,000	
	Retained earnings		1,000
	Retained earnings [($270,000 – $240,000) × $^{2}/_{6}$]	10,000	
	Interest payable		10,000

(b)

Chan's Limited
Statement of Financial Position as at 31 December 2019

	$	$	$
Non-current assets			
Office equipment, net ($1,000,000 – $200,000)			800,000
Motor vehicles, net [($270,000 – $30,000) – ($9,000 – $1,000)]			232,000
			1,032,000
Current assets			
Inventory ($245,000 – $350 + $10,000)		254,650	
Trade receivables ($800,000 – $14,000)	786,000		
Less Allowance for doubtful accounts ($155,000 + $2,200)	157,200	628,800	
Cash at bank ($349,000 + $100)		349,100	
		1,232,550	
Less *Current liabilities:*			
Trade payables ($105,000 + $100)	105,100		
Short-term bank loan ($270,000 – $30,000)	240,000		
Interest payable	10,000		
Deposits from customers	25,000	380,100	
Net current assets			852,450
			1,884,450
Financed by:			
Capital			
Ordinary share capital			1,000,000
Add Retained earnings (Workings)			504,450
			1,504,450
Non-current liabilities			
Long-term bank loan			380,000
			1,884,450

Correct Retained earnings = $520,000 – $2,200 – $14,000 + $10,000 – $350 + $1,000 – $10,000 = $504,450

(d) The quick ratio would decrease.

This is because the long-term bank loan would then be treated as current liabilities.

(Total 20 marks)