

**FANLING LUTHERAN SECONDARY SCHOOL**  
**2021-2022 Mock Examination**  
**S6 BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**  
**PAPER 2**

Date: March 11, 2022

Time allowed: 2 hour 15 minutes

Name : \_\_\_\_\_

Class : \_\_\_\_\_(    )

Seat No.: \_\_\_\_\_

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**INSTRUCTIONS:**

1. There are three sections in this paper.
  2. All questions in Section A are **COMPULSORY**. You are required to answer **TWO** of the three questions in Section B and **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 8 pages.
  5. This paper must be answered in English.
  6. Full marks of this paper is 68.
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**SECTION A** (24 marks)Answer **ALL** questions in this section.

- 1 (A) Indicate the accounts to be debited and credited, and the ledgers to be recorded for the following transactions.

Transaction		Debit entry to be recorded		Credit entry to be recorded	
		Account	Ledger	Account	Ledger
e.g.,	Purchased goods in cash.	Purchase	General ledger	Cash	Cash book
(a)	Purchased a machine on credit.	(1)	(2)	(3)	(4)
(b)	Purchased goods by cheque for owner's private consumption.	(5)	(6)	(7)	(8)
(c)	Received a refund from a supplier in cash.	(9)	(10)	(11)	(12)
(d)	Issued a credit note for goods returned.	(13)	(14)	(15)	(16)
(e)	Made a refund to a customer by cheque.	(17)	(18)	(19)	(20)
(f)	An allowance was given by a credit supplier because of goods damaged in transit. These goods would not be returned to the supplier.	(21)	(22)	(23)	(24)

- (B) State the book of original entry for recording item (a), (b), (c) and (d) in part (A).

(Total 8 marks)

- 2 Pear Company uses the weighted average cost method for the valuation of inventory and sells only one product. According to the stocktaking sheet, the opening inventory as at 1 January 2021 included 1,000 units of goods with an average cost of \$35 per unit. The following information relates to transactions in 2021.

- On 20 February, 800 units of goods were purchased at \$28,000.
- On 25 February, 500 units of goods were sold at \$50 each.
- On 10 March, 50 units of goods bought on 20 February were returned to suppliers.
- On 15 April, 1,200 units of goods were purchased at \$38 each.
- On 12 May, 300 units of goods were sold at \$18,000. On the same day, 150 units of goods were returned from customers.
- On 30 June, it was found that 60 units of goods were damaged. They could only be sold for \$5 each after paying a total amount of \$150 to repair them.

Assume all goods returned from customers could be resold.

**REQUIRED:**

- Calculate the number of goods available for sale for the half year ended 30 June 2021.
- Calculate the cost of goods available for sale for the half year ended 30 June 2021.
- Calculate the weighted average cost per unit of goods. (to one decimal place)
- Using item (vi), calculate the net book value of damaged goods.
- Calculate the value of closing inventory as at 30 June 2021.

(Total 8 marks)

- 3 Ms Wong operates a factory that produces Product Z. She is preparing the budget for the next accounting year and has the following information related to the selling price and production costs: :

- (i) Unit selling price \$800  
Direct material cost 0.8 kilograms required per unit of Product Z  
Direct labour cost 10 hours required per unit of Product Z
- (ii) Each kilogram of direct material costs \$30.
- (iii) Direct labour rate is \$45 per hour.
- (iv) Two types of production overheads would be incurred in the production process. Information relating to these overheads at different production levels is as follows:

Production level	15,000 units	20,000 units	25,000 units	30,000 units
Type 1 overheads	\$300,000	\$400,000	P	\$600,000
Type 2 overheads	\$325,000	Q	\$475,000	\$550,000

**REQUIRED:**

- (a) Using item (iv), calculate the value of P and Q.
- (b) Calculate the unit variable production cost of Product Z.
- (c) Calculate the budgeted gross profit at a production level of 20,000 units.

In the coming year, the factory will only produce 15,000 units of Product Z due to a decrease in demand. The maximum capacity for labour hours is 300,000 hours each year. The factory can use the remaining capacity to produce other products, namely, Z Pro, Z Plus and Z Max. The budgeted information related to these three products is as follows:

	<i>Z Pro</i>	<i>Z Plus</i>	<i>Z Max</i>
Estimated demand	10,000 units	12,500 units	10,250 units
Estimated unit selling price	\$820	\$749.5	\$698
Direct labour hours required per unit	8 hours	6.5 hours	7.5 hours
Direct labour rate	\$45/hour	\$45/hour	\$45/hour
Direct material usage required	0.5 kg/unit	0.7 kg/unit	0.35 kg/unit
Direct material price	\$30/kg	\$30/kg	\$30/kg
Variable production overheads per unit	\$20	\$20	\$20

**REQUIRED:**

- (d) Calculate the contribution margin per unit for each of the three new products.
- (e) To maximise the total contributions of the factory, calculate the production quantity for each of the three new products.

(Total 8 marks)

**SECTION B** (24 marks)Answer **TWO** questions in this section.

- 4 The account balances of Rocky Company Limited as at 31 December 2016 and 31 December 2017 are given below:

	2016	2017
	\$	\$
3% Long-term loan	753,800	180,000
5% Short-term loan	--	90,000
Accrued expenses	8,200	15,000
Cash at bank	33,500	128,000
Equipment, net	782,000	663,000
Inventory (31 December)	136,500	364,000
Ordinary share capital	200,000	700,000
Retained profits (31 December)	42,000	158,000
Trade payables	58,000	202,000
Trade receivables	110,000	190,000

Additional information:

- (i) All sales were made on credit and total sales for the year 2017 were \$780,000. Some goods were sent on a sale-or-return basis at a price of \$17,000 in December 2017 and were recorded as credit sales. On 31 December 2017, all these goods were returned by the customer and were included in the closing inventory of the company, but no entries were made in respect of this return.
- (ii) Total purchases for the year 2017 amounted to \$778,050, of which 80% were credit purchases and 20% cash purchases.

**REQUIRED:**

- (a) Calculate (to two decimal places) the following ratios for 2017 (365 days a year):
  - (i) working capital ratio
  - (ii) inventory turnover (in times)
  - (iii) average trade receivables collection period (in days)
  - (iv) average trade payables repayment period (in days)
- (b) (i) Calculate (to two decimal places) the gearing ratios of Rocky Company Limited for 2016 and 2017.  
(ii) Comment on the solvency of Rocky Company Limited for 2017.

(Total 12 marks)

- 5 Amy and Bobby have been in partnership for many years, sharing profits and losses equally. The account balances as at 31 July 2021 are as follows:

	\$
Property, at cost	2,500,000
Accumulated depreciation: Property	300,000
Equipment, at cost	1,000,000
Accumulated depreciation: Equipment	150,000
Inventory	300,000
Trade receivables	1,480,000
Allowance for doubtful accounts	36,000
Trade payables	750,000
Accrued salary	80,000
Cash at bank	500,000
Capital – Amy	2,500,000
Capital – Bobby	1,500,000
Current – Amy	188,000
Current – Bobby	(4,000)

On 1 August 2021, Carol, the manager, was admitted as a new partner to the partnership. The arrangements were as follows:

- (i) The property was to be revalued at 120% of its cost and the equipment was to be revalued downwards by 20% of net book value.
- (ii) An allowance for doubtful accounts was to be provided at 10% on the trade debtors accounts.
- (iii) Amy, Bobby and Carol agreed to share profits and losses in the ratio of 3 : 2 : 1.
- (iv) Goodwill was to be valued at \$420,000. No goodwill account was to be maintained in the books. Goodwill adjustments were to be made in the partners' capital accounts.
- (v) Carol would contribute her capital account through the following ways upon her admission:
  - (1) She brought in \$70,000 cheque into the partnership.
  - (2) She paid the trade payables of \$455,000 on behalf of the new partnership.
- (vi) Carol is entitled to an annual salary of \$480,000.
- (vii) All partners are entitled to interest on capital, at 5% per annum.

**REQUIRED:**

- (a) Calculate the net book value of property and equipment.
- (b) Prepare the following accounts to record Carol's admission:
  - (i) the revaluation account
  - (ii) the partners' capital accounts in columnar form
- (c) Assuming the net profit for the year ended 31 July 2022 was \$1,380,150, prepare the profit and loss appropriation account for the year ended 31 July 2022.

(Total 12 marks)

6 (A) Define opportunity cost.

(B) XYZ Company commenced on 1 September 2019. The company manufactures only one product, Product X, and utilises the absorption costing system. Its income statement for the year ended 31 August 2022 is as follows:

	\$	\$
Sales (1,500 units)		7,500,000
<i>Less Cost of goods sold:</i>		
Opening inventory of Product X (300 units)	495,600	
Direct material cost	1,440,000	
Direct labour cost	760,000	
Direct manufacturing expenses	80,000	
Fixed manufacturing overheads absorbed	1,850,000	
Cost of goods manufactured during the year	<u>4,625,600</u>	
<i>Less</i> Closing inventory of Product X (1,300 units)	(2,147,600)	
<i>Add</i> Under-absorbed fixed manufacturing overheads	<u>100,000</u>	(2,578,000)
Gross profit		<u>4,922,000</u>
<i>Less</i> Variable selling expense	300,000	
Fixed distribution cost	400,000	
Administrative expenses	<u>760,400</u>	(1,460,400)
Net profit		<u><u>3,461,600</u></u>

Last year's unit manufacturing cost was the same as that incurred in this year.

**REQUIRED:**

- (a) Calculate the number of Product X manufactured.
- (b) Calculate the Contribution per unit of Product X.
- (c) Calculate the breakeven sales quantity.
- (d) Calculate (to two decimal points) the margin of safety by percentage.

Information related to Product Y of OPQ Company, a major competitor of XYZ Company, is as follows:

Breakeven sales	\$1,200,000
Fixed costs	\$900,000

**REQUIRED:**

- (e) Calculate the contribution margin ratio of Product X and Product Y ?
- (f) If the annual sales level of both XYZ and OPQ will be at \$9,000,000 in the coming year, use supporting calculations to compare their budgeted total contribution and net profit (assuming there is no opening inventory and closing inventory). Which company will perform better in terms of total contribution?  
Which company will perform better in terms of net profit?

(Total 12 marks)

**SECTION C** (20 marks)

Answer **ONE** question in this section.

- 7 After preparing an income statement for the year ended 31 October 2021, Fung Limited prepared a trial balance as at the same date and found that it did not agree. The difference was posted to the suspense account.

The following errors were discovered:

- (i) Accrued interest expense of \$500 as at 31 October 2020 was brought forward at the beginning of next year as \$55 on the debit side of the interest revenue account.
- (ii) Discounts for the year shown in the payment side of the cash book were \$3,500. However, the amount posted to the personal account was only \$2,900.
- (iii) The payment and receipt side of the bank column in the cash book had been undercast by \$800 and \$500 respectively.
- (iv) Due to physical deterioration, goods costing \$3,000 could only be sold for \$2,000 after paying \$120 to repair them. The bookkeeper recorded this as a \$1,000 abnormal inventory loss without adjusting the value of closing inventory.
- (v) Ben Limited is both a supplier and a customer of Fung Limited. A contra amount of \$45,000 was agreed to. However, it had been recorded on the wrong side of both the trade receivable account and trade payable account.
- (vi) On 20 October 2020, a customer paid \$4,000 as a non-refundable deposit for goods to be delivered on 10 September 2021. These goods costs \$8,000 and will be sold at a 150% mark up. The customer accepted these goods on 13 September 2021 and payment would be made in 2022. No entries had been made in respect of this sale.
- (vii) Amounts of \$6,500 and \$8,000 owed by a credit customer had been previously written off as bad debts for the years ended 31 October 2020 and 2021, respectively. That customer paid back these amounts in cash on 20 October 2021. This had been recorded as a settlement from credit customers. No other accounting entries had been made.
- (viii) On 31 October 2021, a 5% allowance for doubtful accounts had been provided on the total amount of trade receivables of \$500,000 as shown in the books. However, Fung Limited finally decided to adjust it to 8%. No entries had been made for this adjustment.
- (ix) On 1 June 2021, Fung Limited purchased a machine. On that day, the company paid \$1,000, \$3,000, and \$500 for the freight, installation of the machine and teaching staff to operate the machine, respectively. All of these payments had been expensed in the profit and loss account. It is the company's policy to provide depreciation on non-current assets on a straight-line method at 15% per annum.

**REQUIRED:**

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required.
- (b) Prepare the suspense account to find out the difference as per the trial balance.

(Total 20 marks)

- 8 On 31 December 2021, the Chan company's cash at bank account had a debit balance of \$340,850, which did not agree with the balance shown on the bank statement. Subsequent investigation discovered the following:

- (i) During the year, the following cheques had been recorded in the books but still had not been presented to the bank on 31 December 2021:

<i>Cheque number</i>	<i>Payee</i>	<i>Date of cheque</i>	<i>Amount</i>
25777	Alien Co	1 April 2021	\$20,000
25778	Orange Limited	25 October 2021	\$12,000
25779	XYZ Company	5 November 2021	\$18,000
25780	Donny Co	15 March 2022	\$15,000

It is the bank's practice not to honour cheques outstanding for more than six months.

- (ii) The following information relates to cheques deposited into the company's bank account in December 2021:

<i>Cheque number</i>	<i>Deposit date</i>	<i>Credited by bank</i>	<i>Amount</i>
32885	27 December 2021	—	\$30,000
32886	28 December 2021	30 December 2021	\$40,000
32887	29 December 2021	3 January 2022	\$70,000
32888	30 December 2021	4 January 2022	\$25,000

Cheque #32885 was dishonoured on 29 December 2021 because the signature on this cheque did not match the bank's record.

- (iii) On 25 March 2021, a credit customer settled the outstanding amount of \$4,000 by cheque #32559. The bookkeeper recorded the settlement in the books and put the cheque into a drawer. This cheque was still not presented on 31 December 2021.
- (iv) Cheque #32779 for \$18,000 dated 20 January 2022 was received from a credit customer on 10 October 2021. It had been recorded as a debtor's settlement.
- (v) A dividend of \$1,000 was received through bank transfer. No accounting entries had been made for this.
- (vi) On 1 July 2021, the Chan company bought equipment costing \$200,000 on credit. The Chan Company would settle the amount on 30 June 2022. The equipment supplier charges interest, payable half-yearly on 31 December 2021 and 30 June 2022, at 5% per annum. No accounting entries had been made for the above.
- (vii) Payment to credit suppliers amounting to \$11,000 had been debited thrice to the cash at bank account.
- (viii) On 30 November 2021, a 6-month short-term deposit of \$60,000 with a 3% annual interest rate matured. Half of the amount in the account was renewed on the short-term deposit and the remaining amount was transferred to the current account. The bookkeeper recorded that the entire amount was transferred to the current account.
- (ix) A credit transfer of \$3,000 appeared on the bank statement. The company was informed by the bank that this amount was wrongly credited and would be adjusted in January 2022.

**REQUIRED:**

- (a) Update the Chan Company's cash at bank account.
- (b) Prepare a bank reconciliation statement as at 31 December 2021, commencing with the balance of the bank statement.
- (c) Explain the function of a bank reconciliation statement.
- (d) (i) Indicate the cheque number on the cheque issued by the Chan Company that became stale from the above information.
- (ii) Indicate from the above information the cheque number of the post-dated cheque that the Chan Company received.

**END OF PAPER**

(Total: 20 marks)