

**FANLING LUTHERAN SECONDARY SCHOOL**  
**2022–2023 S6 Mock Examination**  
**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2**  
**Marking Scheme**

**SECTION A (24 marks)**

1. (a) Number of units unsold as at 31 December 2021 =  $150 + 200 + 600 = 950$  units

Total cost of goods available for sale =  $\$5,900 + 200 \times \$35 + 600 \times \$45 = \$39,900$

Unit average cost =  $\$39,900/950 = \$42$  per unit

Number of closing inventory =  $950 - 100 - 650 = 200$  units

Value of closing inventory =  $200 \times \$42 = \$8,400$

(b)

**Jenny**  
**Income Statement for the year ended 31 December 2021**

	\$	\$
Sales ( $100 \times \$50 + 650 \times \$48$ )		36,200
<i>Less Cost of goods sold:</i>		
Opening inventory	5,900	
Purchases ( $200 \times \$35 + 600 \times \$45$ )	34,000	
	39,900	
Less Closing inventory	(8,400)	(31,500)
Gross profit		4,700
Loss: Expenses		
Operating expenses		20,000
Net loss		<u>(15,300)</u>

- (c) According to the lower of cost and net realisable value, the value of closing inventory is \$7,500.

The cost of goods sold will increase by \$900. Gross profit for the month of December 2021 will decrease by \$900 ( $\$8,400 - \$7,500$ ).

(Total 8 marks)

2. (a) (i) (6) General journal (ii) (5) Returns outwards journal  
(iii) (1) Cash book (iv) (6) General journal  
(v) (3) Returns inwards journal (vi) (2) Sales journal  
(vii) (6) General journal (viii) (4) Purchases journal  
(ix) (5) Returns outwards journal (x) (1) Cash book

- (b) Dr Account: AB Limited's account      Ledgers: Purchases ledger  
Cr Account: Returns outwards account      Ledgers: General ledger

- (c) — Classification of the transactions so as to facilitate the postings to the ledger accounts  
— Segregation of duties which could reduce frauds  
— Two sets of accounts can be checked against each other to increase the accuracy  
— The bookkeeper can be cross-checked with two different groups of people.

(Total 8 marks)

3 (a)

**Tasty Food Co**  
**Income Statement for the year ended 28 February 2022**

	\$	\$
Sales		1,220,000
Less Cost of goods sold:		
Direct materials (\$1 × 1,000 × 250)	250,000	
Direct labour (balancing figure)	418,450	
Direct expenses	100	
Prime costs	668,550	
Manufacturing overheads absorbed (balancing figure)	331,450	
Total manufacturing cost		1,000,000
Gross profit		220,000
Less Selling and administrative expenses (\$1,000,000 × 10%)		100,000
Net profit		<u>120,000</u>

$$\text{Direct labour} = \$668,550 - (\$250,000 - \$100) = \$418,450$$

$$(\$1,220,000 - \text{Total manufacturing cost}) - (\text{Total manufacturing cost} \times 10\%) = \$120,000$$

$$\$1,220,000 - 1.1 \text{ Total manufacturing cost} = \$120,000$$

$$\text{Total manufacturing cost} = \$1,000,000$$

(b)  $\text{The conversion cost} = \$1,000,000 - \$250,000 = \$750,000$

(c) Marketing expenses

Office rent

Salaries of office staff

(Total 8 marks)

**SECTION B** (24 marks)

4. (a)

**Cash at Bank**

	\$		\$
Balance b/d	20,588	Time deposit (i)	10,000
Electricity (iii)	1,800	Interest income (i)	100
Dividend income (v)	10	Lily Wong (iv)	8,800
Wong's Co (ix)	800	Bank charges (vi)	555
		Water fees (viii)	1,357
		Balance c/d	2,386
	23,198		23,198

(b)

**Judy Co**

**Bank Reconciliation Statement as at 31 March 2022**

	\$	\$
Adjusted balance as per cash at bank account		2,386
Add Unpresented cheque (ix)		1,000
		3,386
Less Uncredited deposits (ii)	21,570	
Bank error (vii)	1	21,571
Overdraft balance as per bank statement		18,185

- (c) — The drawer does not have enough money in the current account for payment.
- The cheque is stale.
- The cheque is not dated.
- There is no signature on the cheque, or the signature does not match that on record at the bank.

(Total 12 marks)

5. (a) Average spending per customer =  $\$400 \times (1 - 25\%) = \$300$   
 Contribution margin per customer =  $\$300 \times (1 - 30\%) = \$210$   
 Total fixed cost =  $[\$2,400,000 \times (1 - 40\%) + \$3,500,000 \times (1 - 40\%) + \$6,000,000/12 + \$223,000]$   
 $= \$4,263,000$   
 The monthly break-even sales (in sales unit) =  $\$4,263,000/210 = 20,300$  unit  
 The monthly break-even sales (in sales dollars) =  $20,300 \times \$300 = \$6,090,000$   
 The monthly sales (in sales dollars) =  $30,000 \times (1 - 25\%) \times \$300 = \$6,750,000$   
 The monthly safety figure margin (in sales dollars) =  $\$6,750,000 - \$6,090,000 = \$660,000$

(b) (i)

**Amy Lee**  
**Statement to Calculate Incremental Revenues, Costs and Profits**

	\$	\$
Incremental revenues (5,000 x 12 x \$60)		3,600,000
Less Incremental expenses:		
Decrease in profit for dine-in customers ( $\$100,000 \times 70\% \times 12$ )	840,000	
Variable production cost ( $3,600,000 \times 30\%$ )	1,080,000	
Fixed operating costs	200,000	
One-time set up cost	10,000	
Cost of stove ( $\$5,000 - \$3,000$ )	2,000	2,132,000
Incremental profits		<u>1,468,000</u>

- (ii) As there are incremental profits of \$1,468,000, Amy Lee's restaurant should expand its take-away business.

- (c) A sunk cost is incurred by a decision made in the past. It will not affect future decisions as it cannot be changed.

Example: the net book value of \$1,000,000 on the idled cooking equipment

(Total 12 marks)

6 (a)

**Realisation**

	\$		\$	\$
Property	2,000,000	Trade payables: Discounts received (W1)		600
Equipment	550,000	Capital: Gabriel		120,000
Inventory	420,000	Bank — Inventory		50,000
Trade receivables	131,000	Loan from Fanny		200,000
Bank — Realisation expenses	20,000	Bank — Property (W1)		1,840,000
Bank — Scrap charges	33,680	Loss on realisation —		
		Capital: Eric ( <sup>1</sup> / <sub>10</sub> )	94,408	
		Capital: Fanny ( <sup>4</sup> / <sub>10</sub> )	377,632	
		Capital: Gabriel ( <sup>5</sup> / <sub>10</sub> )	472,040	944,080
	<u>3,154,680</u>			<u>3,154,680</u>

W1: Discounts received = \$30,000 x 2% = \$600

W2: Property = \$2,000,000 x 92% = \$1,840,000

(b)

**Capital**

	Eric	Fanny	Gabriel		Eric	Fanny	Gabriel
	\$	\$	\$		\$	\$	\$
Current	39,000	—	—	Balance b/d	100,000	900,000	1,000,000
Realisation	—	—	120,000	Current	—	453,000	404,000
Realisation: Loss	94,408	377,632	472,040	Capital: Fanny	16,704	—	—
Capital: Eric	—	16,704	16,704	Capital: Gabriel	16,704	—	—
Bank	—	958,664	795,256				
	<u>133,408</u>	<u>1,353,000</u>	<u>1,404,000</u>		<u>133,408</u>	<u>1,353,000</u>	<u>1,404,000</u>

**Bank**

	\$		\$
Realisation—Inventory	50,000	Balance b/d	3,000
Realisation—Property	1,840,000	Trade payables (\$80,000 - \$600)	79,400
		Realisation—Realisation expenses	20,000
		Realisation—Scrap charges	33,680
		Capital—Fanny	958,664
		Capital—Gabriel	795,256
	<u>1,890,000</u>		<u>1,890,000</u>

(Total 12 marks)

**SECTION C** (20 marks)

7. (a)

**The Journal**

		Dr	Cr
	Details	\$	\$
(i)	Water fee deposit	500	
	Cash at bank		500
(ii)	Purchases (\$1,234 × 2)	2,468	
	Trade payables		2,468
(iii)	Loan to Cecilia Lee	100,000	
	Trade payables — Cecilia Lee		100,000
	Interest receivable	3,000	
	Interest income (\$100,000 × 12% × 3/12)		3,000
(iv)	Share application	1,300,000	
	Ordinary share capital (500,000 × \$2)		1,000,000
	Cash at bank		300,000
(v)	Suspense	2,000	
	Sales		1,500
	Returns inwards		500
(vi)	Sales	500	
	Printer / Office equipment: accumulated depreciation	8,000	
	Loss on disposal	1,500	
	Printer / Office equipment		10,000
(vii)	Wages	1,250	
	Suspense		1,250
(viii)	Sales	1,080	
	Suspense		1,080
(ix)	Discounts allowed	10	
	Discounts received	1,000	
	Suspense		1,010

(b)

**Suspense**

	\$		\$
Difference as per trial balance	1,340	Wages (vii)	1,250
Sales (v)	1,500	Sales (viii)	1,080
Returns inwards (v)	500	Discounts allowed (ix)	10
		Discounts received (ix)	1,000
	<b>3,340</b>		<b>3,340</b>

(c) (i) Error of omission

(ii) Error of complete reversal of entries

(iii) Error of principle

(Total 20 marks)

8. (a)

**Andrew Co**  
**Income Statement for the year ended 30 September 2021**

	\$	\$
Sales (W1)		1,299,250
Less Cost of goods sold:		
Opening inventory	260,000	
Add: Purchases (W2)	408,600	
	668,600	
Less Abnormal inventory loss (bal. figure)	148,790	
	519,810	
Less Closing inventory (W3)	(50)	519,760
Gross profit [(\$1,299,250 – \$100) x 60%]		779,490
Add Other revenues:		
Interest revenue (\$10,000 x 3% x 9/12)		225
		779,715
Less Expenses:		
Depreciation on office equipment (\$800,000 x 20%)	160,000	
Wages and salaries (\$240,000 + \$312,000)	552,000	
Other operating expenses (\$1,500 – \$10 + \$90)	1,580	
Rent and rates (\$288,000 – \$3,000)	285,000	
Inventory loss	148,790	1,147,370
Net loss		(367,655)

W1:  $\$24,390 = \$33,580 + \text{Sales} - (\$996,340 + \$312,000 + \$100)$ , Sales = \$1,299,250

W2:  $34,680 = \$15,960 + \text{Purchases} - (\$388,880 + \$1,000)$ , Purchases = \$408,600

(b)

**Andrew Co**  
**Statement of Financial Position as at 30 September 2021**

	\$	\$
<b>Non-current assets</b>		
Office equipment	800,000	
Less: Accumulated depreciation (\$800,000 x 20%)	160,000	640,000
Time deposit		10,000
		650,000
<b>Current assets</b>		
Inventory	50	
Rental deposit	24,390	
Interest receivable	3,000	
Trade receivables	225	
Cash at bank (\$146,960 – \$1,000)	145,960	
	173,625	
Less Current liabilities:		
Trade payables	34,680	
Accrued other operating expenses	90	
	34,770	
Net current assets		138,855
		788,855
<b>Financed by:</b>		
<b>Capital and reserves</b>		
<i>Capital</i>		
Balance as at 1 October 2020		1,116,610
Add Capital injection		50,000
		1,166,610
Less Net loss for the year		367,655
Drawings (\$10,000 + \$100)		10,100
		788,855

- (c) Normal inventory loss is an expected loss during the normal course of business.  
Abnormal inventory loss is an unexpected loss incurred during business operations.  
The inventory loss in the burglary is an abnormal inventory loss.
- (Total 20 marks)