FANLING LUTHERAN SECONDARY SCHOOL

2023-2024 Mock Examination

S6 BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 2

Date: February 5, 2024

Time allowed: 2 hour 15 minutes

Name : ____________________

Class : __________________( )

Seat No.: ____________________

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 9 pages.

5. This paper must be answered in English.

6. Full marks of this paper is 68.

SECTION A (24 marks)

Answer **ALL** questions in this section.

1 Miss Wong commenced her manufacturing business on 1 January 2022 and acquired two pieces of equipment costing $90,000 each on that date. No other additions or disposals were made during 2022. Information relating to the purchase of a new piece of equipment by cheque on 1 January 2023 was as follows:

	$
List price (with a 15% trade discount allowed)	120,000
Wages for installing the equipment	800
Licence fee and insurance for one year	7,800
Testing fee after installation	2,200
Training fee for equipment operators	3 000
Repair cost for accidental damage during installation	2,800

One of the equipment purchased in 2022 was disposed of on 1 September 2023 for $40,000. Depreciation on equipment is to be provided at a rate of 20% per annum using the reducing balance method. Depreciation expense is calculated on a monthly basis.

REQUIRED:

(a) Prepare a statement to calculate the cost to be capitalised for the equipment purchased on 1 January 2023.

(b) Prepare the following accounts for the year ended 31 December 2023:

  (i) Equipment

  (ii) Accumulated depreciation: Equipment

(c) State one advantage of using the reducing balance method to calculate the depreciation of equipment.

(Total 8 marks)

2 Diamond Company started manufacturing a single product, Product Y, on 1 January 2023. The company accountant used the weighted average method in inventory valuation and prepared the following income statement for the year ended 31 December 2023 based on the absorption costing approach:

		$	$
Sales			1,265,000
Less:	*Cost of sales:*		
	Cost of production	1,068,750	
	Less: Closing inventory (16,000 units)	120,000	
		948,750	
	Add: Under-absorbed fixed production overheads	26,250	975,000
Gross profit			290,000
Less:	Selling expenses	158,500	
	Administrative expenses	84,100	242,600
Net profit			47,400

Actual fixed production overheads were $738,750 for the year and were absorbed at $5 per unit. Administrative expenses were fixed. Selling expenses, except for the 8% commission on sales paid to sales agencies, were also fixed.

REQUIRED:

(a) Prepare Diamond Company's income statement for the year ended 31 December 2023 based on the marginal costing approach.

(b) State and explain one reason for adopting the weighted average method in inventory valuation.

(Total 8 marks)

3 Miss Choy is a sole trader. Below are her cash and bank balances:

	Debit	Credit
	$	$
Cash	1,120	
Bank		5,000

(i) The following transactions took place during the month of March 2023:

Mar	1	Miss Choy contributed additional capital of $40,000 into the bank account.
	8	Purchases of goods on credit amounted to $13,040.
	15	Withdrew $300 from bank for office use.
	18	Paid an electricity bill of $900 in cash.
	21	Cash refund of $1,000 by a supplier, Lily Chan.
	25	Paid bank charges at 6% on the opening balance in March.
	29	Credit sales to Susan and Ricky were $7,200 and $4,400, respectively.

(ii) Cheque book counterfoils:

			Amount owed	Cash discounts
		Suppliers:	$	
Mar	5	Man Kee	7,800	5%
	24	Jacky Lui	1,000	—

(iii) Pay-in book counterfoils:

			Amount owed	Cash discounts
		Customers:	$	
Mar	3	Mary Lee	1,600	2.5%
	23	Kelvin Yu	7,200	6%

(iv) On checking the bank statement, she found the following items:

Mar	10	Standing order of $1,212 to DDS Insurance Company.
	27	Credit transfer of $1,440 from a customer, Andy Fung.

REQUIRED:

Write up a three-column cash book for Miss Choy to record the above transactions in March 2023.

(Total 8 marks)

SECTION B (24 marks)

Answer **TWO** questions in this section.

4 The bank account of Tony Company as at 31 December 2023 had a debit balance of $90,000, which was different from the closing balance shown in the bank statement for the month of December 2023. Because of this, a suspense account was created. Subsequent comparisons of the cash at bank account with the bank statements revealed the following:

(i) A receipt from a customer relating to a credit sale amounting to $45,000 was received and immediately banked on 31 December 2023, but no entry had been made in respect of that in the books. The receipt appeared in the bank statement of January 2024.

(ii) A cheque of $24,000 issued for the payment of insurance for the 12 months period ended 30 November 2024 was returned by the bank on 31 December 2023 because the amount in words and figures did not match. No entry had been made for the returned cheque in the books.

(iii) A cheque of $3,000 dated 8 January 2024 was received from a customer on 31 December 2023. The accountant recorded it as a receipt in the cash book on 31 December 2023.

(iv) The bank mistakenly debited Tony Company's bank account on 29 December 2023 for a cheque of $4,500 drawn by Tony Limited, another customer of the bank. The bank reversed the entry in Tony Company's account on 2 January 2024.

(v) A cheque of $10,000 received from a customer was rejected and returned by the bank on 28 December 2023. No entry had been made for this returned cheque in the books.

REQUIRED:

(a) Update Tony Company's cash at bank account.

(b) Prepare for Tony Company a bank reconciliation statement as at 31 December 2023, commencing with the updated cash at bank account balance.

(c) Besides the amount in words being different from the amount in figures, list two possible reasons why the cheque received from the customer in item (v) above was returned by the bank on 28 December 2023.

(d) In respect of item (ii), prepare the necessary journal entries to record the transaction and briefly explain the accounting treatment that should be adopted. (Narrations are not required.)

(Total 12 marks)

5 King Company is a local company that manufactures digital watches. In 2023, the unit costs were as follows:

	$
Direct materials	80
Direct labour (at $200 per hour)	100
Production overheads	
– Variable	20
– Fixed	40

The selling price of each digital watch was $384.

In 2023, fixed production overheads were absorbed on the basis of direct labour hours. The budgeted direct labour hours were 40,000 and the maximum capacity is 45,000 direct labour hours.

In December 2023, a foreign customer offered to purchase from the company 60,000 manual watches at $700 each. Direct materials would be increased by $150 per unit and extra fixed administrative overheads of $40,000 would be incurred.

Direct labour hours for each manual watch would be half of that required by a digital watch. In addition, the company would need to hire workers with special skills at hourly wages double that of normal direct labour. Each manual watch would require 0.75 hours of these skilled workers.

The absorption of fixed production overheads did not include the hours required by these workers with special skills. Variable production overheads of each manual watch would be the same as that of a digital watch.

REQUIRED:

(a) Should the company accept the offer? Support your answer with calculations.

(b) Calculate the minimum selling price of each manual watch for King Company to accept the offer.

(c) State two non-financial factors that may affect King Company's decision in (a).

(Total 12 marks)

6 The trial balance of Johnson Limited as at the financial year-end date, 31 December 2023, did not agree and the difference was posted to the suspense account. After the preparation of a draft income statement, the net profit for the year amounted to $147,360.

The following errors were subsequently discovered:

(i) Purchases of $14,430 had been correctly recorded in the supplier's account but had been debited to the general ledger as $14,340.

(ii) An inventory sheet amounting to $9,750 had been omitted from the closing inventory figure.

(iii) During 2023, the company had paid insurance of $45,000, which represented 15 months of insurance starting from 1 January 2023. However, no adjustment had been made in the year ended concerning the above.

(iv) The purchase of new equipment for $30,600 had been treated as sales by the accountant, though the amount had been correctly credited in the bank account. It is the company's policy to provide depreciation for equipment at 10% per annum on cost.

(v) A customer, Miss Ling, whose account balance had been written off, paid $3,390 by cheque to settle her account on 30 December 2023. No entry had been made for this.

(vi) The debit balance carried down of $9,930 for Tin Tin Company, a customer, had not been brought down as an opening balance.

(vii) The sales journal had been undercast by $720.

(viii) A gross credit purchase of $270,000 with a 5% trade discount was made during the year. The following accounting entries were made:

	$	$
Purchases	256,500	
Discounts allowed	13,500	
Trade payables		270,000

(ix) The cashier stole $15,000 cash during the year. This amount represented a receipt from a long-outstanding customer who had owed $30,000. After the payment, the customer was declared bankrupt. No entry had been made for the above.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required.

(b) Prepare a statement to correct the draft net profit for the year ended 31 December 2023.

(c) What is the purpose of preparing a suspense account?

(Total 12 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

7 Amy, Barbara and Carmen were in partnership sharing profits and losses in the ratio of 3 : 2 : 1, respectively. The annual salaries of Amy, Barbara and Carmen were $54,000, $36,000 and $34,650 respectively. The trial balance for the partnership as at 31 December 2023 was as follows:

	Dr	Cr
	$	$
Premises (net)	1,200,000	
Plant and machinery (net)	450,000	
Motor vans (net)	180,000	
Inventory	123,000	
Trade receivables (net) and trade payables	470,400	580,000
Bank		45,000
Loan from Barbara		500,000
Capital – Amy		592,500
– Barbara		395,000
– Carmen		382,500
Current – Amy	40,000	
– Barbara		10,000
– Carmen		30,000
Drawings of Carmen	2,000	
Loss for the year 2023	69,600	
	2,535,000	2,535,000

Due to the substantial loss, Amy decided to retire from the business on 31 December 2023 and Dorothy was admitted as a new partner on that date. The information related to Dorothy's admission is provided below:

(i) The partners agreed that goodwill was to be valued at $60,000. No account for goodwill was to be maintained in the books.

(ii) Amy would take over one of the motor vans at its net book value of $75,000. Except the short-term loan of $40,000 form Amy, the balance owed by the firm from her would remain as a loan to the new partnership.

(iii) Inventory was to be written down by 10% and the allowance for doubtful debts was to be increased from $9,600 to $19,200.

(iv) The premises were to be revalued to $1,000,000 and the remaining motor vans were to be revalued to $140,000.

(v) Dorothy introduced into the business $100,000 in cash and an extra amount of cash was to be paid for her share of goodwill. The new profit and loss sharing ratio of Barbara, Carmen and Dorothy was 3 : 2 : 1.

REQUIRED:

(a) Prepare for the partnership:

(1) the appropriation account

(2) the partners' current accounts in columnar form.

(3) the revaluation account

(4) the partners' capital accounts in columnar form.

(b) Prepare for the new partnership of Barbara, Carmen and Dorothy a statement of financial position as at 31 December 2023.

(Total 20 marks)

8 Star Dream Limited was established in 2021 and 350,000 ordinary shares of $1 each were issued. The company prepares its accounts on 31 December each year. The trial balance, before final adjustments, was extracted on 31 December 2023 and shown below:

	Dr	Cr
	$	$
300,000 ordinary share capital, no-par value		341,000
Motor vehicles at cost	180,000	
Retained profits as at 1 January 2023		12,000
Furniture and fixtures	700,000	
Application monies		50,000
15% Bank loan, repayable in 2027		100,000
Accumulated depreciation: Motor vehicles		50,000
Accumulated depreciation: Furniture and fixtures		40,000
Audit expenses	4,300	
Inventory as at 1 January 2023	18,500	
Short-term investment income		20,500
5% debentures		150,000
Sundry expenses	32,000	
Purchases	404,500	
Sales		850,000
Wages and salaries	80,500	
Sales commissions	70,200	
Marketing expenses	58,000	
Carriage outwards	13,500	
Discounts allowed	2,000	
Allowance for doubtful accounts		7,045
Trade payables		22,070
Trade receivables	81,390	
General reserve		3,615
Cash at bank	32,310	
Cash in hand	9,030	
Suspense		40,000
	1,686,230	1,686,230

The following additional information is provided:

(i) Application monies were received for the issuance of 50,000 ordinary shares at $1 each during the year. The newly issued shares were also entitled to dividends in the year of allotment. No entry was made for the allotment.

(ii) The annual depreciation on motor vehicles and furniture and fixtures are 5% and 10% on cost, respectively. It is the company's policy to charge a full year's depreciation in the year of acquisition and none in the year of disposal.

(iii) Included in furniture and fixtures was a deposit of $40,000 paid during the year for a new cabinet system. The new cabinet would be installed next year with the payment of the final balance of $60,000.

(iv) The $150,000 5% debentures were issued on 1 May 2023. On 29 December 2023, $40,000 5% debentures were issued at par to finance the future acquisition of non-current assets. These debentures were fully subscribed, but no entry was made for the allotment. They were not entitled to interest in the financial year ended 31 December 2023.

(v) It was decided that the debt owed by Kelly, a trade debtor, amounting to $40,390 was to be written off as a bad debt and the remaining balance of the trade receivable was subject to an allowance for doubtful accounts of 10%.

(vi) Directors' remuneration of $25,000, interest on bank loan and debenture interest for the year were to be provided.

(vii) Inventory as at 31 December 2023 had a cost $20,000. Items costing $15,000 were out of fashion and it was estimated that they could be sold for $500.

(viii) The board of directors proposed to transfer $10,000 to the general reserve. A final dividend of 5% on ordinary shares for the year was declared and paid in January 2024.

(ix) The following adjustments were to be made on 31 December 2023:

	$
Accrued wages and salaries	4,000
Prepaid sundry expenses	28,820

(x) Profits tax for the year was estimated at $25,000.

REQUIRED:

Prepare for Star Dream Limited:

(a) (i) an income statement for the year ended 31 December 2023, and

(ii) a statement of financial position as at that date.

(b) State one advantage for each of the following two sources of finance for Star Dream Limited:

(i) Ordinary share issue

(ii) Debentures issue

(Total 20 marks)

END OF PAPER