

FANLING LUTHERAN SECONDARY SCHOOL
2024-2025 Mock Examination
S6 BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
PAPER 2

Date: February 14, 2025

Time allowed: 2 hour 30 minutes

Name : _____

Class : _____()

Seat No.: _____

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INSTRUCTIONS:

1. There are three sections in this paper.
 2. All questions in Sections A and B are compulsory. You are required to answer 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 10 pages.
 5. This paper must be answered in English.
 6. Full marks of this paper is 88.
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SECTION A (38 marks)

Answer **ALL** questions in this section.

- 1 On 1 December 2024, Shelby Ltd. purchased 1,000 units of goods from an overseas supplier, with a 5% trade discount. If payment is made within 45 days, an additional 4% cash discount can be received. On 31 December 2024, Shelby Ltd. settled that overseas supplier's account. The company still had 800 units of goods that remained unsold on 31 December 2024, of which 100 units were damaged. The company estimated that after spending \$6,000 on repairs, the damaged goods could be sold for \$150 each. Assuming the company had no opening inventory on 1 December 2024 and uses the weighted average cost method for inventory valuation. Relevant information about the goods is as follows:

	\$
List price	226 / unit
Carriage inwards	7,300
Warehouse rent	6,400 / month
Insurance – against fire during storage in the company's warehouse	400 / month

REQUIRED:

- Compute the value of closing inventory as at 31 December 2024.
 - Prepare a statement to calculate the amount of cost of goods sold shown on the income statement for the month ended 31 December 2024.
 - Explain, with a relevant accounting principle or concept, the accounting treatment of those damaged goods.
- (Total 8 marks)

- 2 Nancy is a sole trader, some account balances of her firm as at 1 March 2024 were extracted as follows:

Cash	\$16,400
Bank	(\$4,590)
Accrued operating expenses: February 2024	\$23,000

The firm had the following transactions and events in March 2024:

- Received a cheque from a customer for settling trade debts of \$102,000 with a cash discount of 2.5%. The cheque was deposited in the bank.
- Issued a cheque to the supplier, Mr. Ting, to settle his account of \$4,000.
- Returned damaged goods costing \$1,000 to Mr. Ting.
- Mr. Ting issued a refund for the goods returned on 8 March in cash.
- Sold goods for \$16,600 to a customer, Bobby, and received \$15,600 in cash, with the balance due next month.
- From the amount received for the sale on 10 March, \$9,600 was used to pay the electricity bill at Nancy's private residence. The remaining amount was deposited into the bank.
- Withdrew cash from the bank, of which \$2,000 was used as a deposit for purchasing goods, and the remaining amount was used to settle the operating expenses for February 2024.
- Refunded \$180 in cash to a customer who had overpaid trade debts in February 2024.
- Rented part of the warehouse to Nancy's friend, Peter, and received a rental deposit of \$30,000 by cheque. The cheque was deposited into the bank.
- Paid \$2,850 cash to settle a trade debt and a cash discount of 5% was obtained.
- A cheque dated 1 April 2024 for \$8,500 was received from a credit customer.
- Received a refund of \$4,000 from a supplier by cheque.

Additional information:

The cheque received on 31 March 2024 was deposited into the bank on 3 April 2024.

REQUIRED:

Prepare for Nancy's firm a three-column cash book for the month ended 31 March 2024.

(Total 8 marks)

- 3 Amy and Bon have been in partnership for many years. Some account balances as at 31 December 2024 were extracted from the books of the partnership:

	\$
Sales	5,003,250
Cost of goods sold	1,356,750
Interest income (including interest on drawings received from Amy)	42,350
Operating expenses (including salary paid to Bon)	3,015,000
Drawings – Amy [note (iv)]	200,000

Additional information:

- (i) Amy and Bon share profits and losses in the ratio of 2:3.
(ii) Starting in 2024, Bon is entitled to a monthly salary of \$27,500, payable by cheque on the following dates:

	<u>Payment date</u>
Salary for January to March	15 April 2024
Salary for April to June	15 July 2024
Salary for July to September	15 October 2024
Salary for October to December	15 January 2025

- (iii) Interest on drawings is charged at 6% per annum while no interest on capital is provided.
(iv) Amy's drawings during the year 2024 were as follows:

	\$
March 1 Withdrawal of goods	225,000
May 31 Return of cash	<u>(25,000)</u>
	<u>200,000</u>

Amy paid the interest on her drawings on 31 December 2024.

REQUIRED:

- (a) Prepare for the partnership the appropriation account for the year ended 31 December 2024.
(b) Briefly explain how Bon's current account as at 31 December 2024 would be affected by the annual salary he was entitled to for 2024.
(c) State two items that would be recorded on the debit side of a partner's current account.

(Total 8 marks)

- 4 As at 31 December 2023, Nappa Company had a balance of \$93,408 in the allowance for doubtful accounts account. According to the books of accounts in 2024, the company wrote off debts amounting to \$5,760 and recovered a debt of \$6,240 from a customer, Bobby, which had been written off in 2020. The company's ageing analysis of its trade receivables as at 31 December 2024 is as follows:

Age of trade receivables	Amount of trade receivables
Less than 31 days	\$1,476,000
31 – 60 days	\$354,000
61 – 100 days	\$304,800
Over 100 days	\$14,400

After preparing the above ageing analysis, the company discovered the following:

- A customer who made a purchase for \$9,600 on 18 March 2024 declared bankruptcy and was unable to settle the debt, but this had not been recorded in the books.
- On 10 December 2024, the company received a cash refund of \$12,000 from Bonnie, a supplier, but this had been incorrectly recorded as a settlement of debts from Bonny, a credit customer. Bonny's account for the year ended 31 December 2024 is extracted as follows:

Trade receivables – Bonny					
2024		\$	2024		\$
Dec 5	Sales	96,000	Dec 10	Cash	12,000
			Dec 31	Balance c/d	84,000
		<u>96,000</u>			<u>96,000</u>

The allowance for doubtful accounts as at 31 December 2024 is calculated as follows:

A customer owing \$27,600 for 40 days was in financial difficulty and Nappa Company decided to make a full allowance for his account. For the remaining credit customers, the allowance for doubtful accounts is calculated based on the age of the accounts at the year-end: 1% for accounts aged less than 31 days, 10% for accounts aged between 31 and 60 days, 20% for accounts aged between 61 and 100 days and 100% for accounts aged over 100 days.

REQUIRED:

- Prepare for the partnership:
 - Allowance for doubtful accounts
 - Bad debts
- State two relevant accounting principles or concepts related to a business providing an allowance for doubtful accounts at the end of the accounting period.

(Total 8 marks)

- 5 ABC Ltd had the following budgeted information for 2025 related to Product A:
- Direct material cost: \$96 / kg
 - Direct labour cost: \$30 / hour
 - Manufacturing each unit of Product A requires 1 kg of direct material and 10 direct labour hours.
 - 56,000 units of Product A would be manufactured in 2025.

The maximum capacity of labour hours for 2025 would be 600,000 hours.

As ABC Ltd would only manufacture 56,000 units of Product A in 2025, the surplus capacity would be used to manufacture for other companies. At the end of 2024, ABC Ltd received production orders from the following three companies:

	Company X	Company Y	Company Z
	<u>Product X</u>	<u>Product Y</u>	<u>Product Z</u>
Production quantity required	4,000	4,000	4,000
Price / unit	\$266	\$230	\$200
Direct material cost / unit	\$48	\$48	\$48
Direct labour cost / unit	\$150	\$120	\$90
Direct labour cost / hour	\$30	\$30	\$30
Direct expense (Royalties) / unit	—	\$30	—
Variable manufacturing overheads / unit	\$8	\$8	\$8

Due to limited production capacity, ABC Ltd has the right not to fully meet the production quantity requirements from Company X and Company Y. However, due to a signed agreement, the production quantity required by Company Z must be completed in full.

REQUIRED:

In order to maximise the company's contribution margin, calculate the number of units to be manufactured for each of the three companies mentioned above.

(Total 6 marks)

SECTION B (32 marks)

Answer **ALL** questions in this section.

- 6 David operates a furniture trading company. Some account balances were extracted from the books as at 1 April 2024.

	\$
Trade receivables	64,800
Trade payables	32,400
Cash at bank	72,456
Cash	6,144
Allowance for doubtful accounts	9,000
Inventory	?

Purchases and sales were made both in cash and on credit. Goods were sold at a uniform mark-up of 80%. Expenses were paid both in cash and by cheque. On 31 March 2025, a fire broke out at the company's premises and destroyed some of the accounting records, inventory costing \$32,400 and cash of \$5,640. After investigating all the remaining records, David determined the following:

- Average cash sales per month were \$26,370.
- The average trade receivables collection period for the year ended 31 March 2025 was 1.5 months and credit customers settled the outstanding amount in cash only.
- Expenses for the year ended 31 March 2025 after preparing period-end adjusting entries were as follows:

	\$
Rent	109,440
Discounts allowed	24,000
Selling and distribution expenses	13,188
Depreciation expenses: machinery	15,600
Other operating expenses	248,040
Bad debts	7,566

Prepaid rental expenses and accrued selling and distribution expenses on 31 March 2025 amounted to \$2,160 and \$588, respectively. An allowance for doubtful accounts of 5% on the balance of the trade receivables account was provided on 31 March 2025. During the year ended 31 March 2025, the company wrote off some trade debts, but no bad debts were recovered.

- A machine was sold for \$36,000 in cash during the year ended 31 March 2025.
- Cash purchases, David's drawings of cash and cash banked during the year ended 31 March 2025 amounted to \$144,000, \$24,000 and \$467,544, respectively.
- The following payments were made through the cash at bank account during the year ended 31 March 2025:

	\$
Payment to suppliers	457,200
Acquisition of machinery	33,000
Selling and distribution expenses	600

- Some account balances as at 31 March 2025 were as follows:

	\$
Trade receivables	122,040
Trade payables	37,200
Cash at bank	?
Cash	?
Allowance for doubtful accounts	?
Inventory	19,560

REQUIRED:

- Prepare the cash and cash at bank account for the year ended 31 March 2025.
- Prepare an income statement (extract) for the year ended 31 March 2025 to calculate the amount of gross profit. You are required to show the calculation of the cost of goods available for sale.

(Total 12 marks)

- 7 (A) Information related to Silver Ltd. for the year ended 31 December 2024 is extracted from the books:

	\$
6% Bank loan, due in 2028	1,200,000
2% Debentures (maturity date: 31 December 2030)	1,200,000
Ordinary share capital (\$2 per share)	2,910,000
6% Preference share capital	1,800,000
Retained profits, 1 January 2024	2,640,000
Net profit after tax	964,800
Profits tax	270,000
Dividend declared and paid: Preference shares	108,000
Dividend declared and paid: Ordinary shares	216,000

Additional information:

- (i) The bank loan was obtained from a local bank in 2022.
- (ii) 2% Debentures were issued in 2022.
- (iii) There was no movement in ordinary share capital and preference share capital during 2024.
- (iv) It was discovered that sales returns of \$4,800 in 2024 had not been recorded in the books.

REQUIRED:

- (a) Prepare a statement to calculate the retained profits as at 31 December 2024.
- (b) Calculate (to two decimal places) the following accounting ratios for the year ended 31 December 2024:
 - (1) Gearing ratio
 - (2) Return on capital employed
 - (3) Earnings per share
 - (4) Dividend cover for ordinary shares (in times)

- (B) The following are the accounting ratios of Gold Ltd. for the year ended 31 December 2024:

	<u>Gold Ltd.</u>	<u>Industry average</u>
Inventory turnover	5.2 times	4.0 times
Trade receivables turnover	4.0 times	3.1 times

REQUIRED:

- (c) Comment on the liquidity of Gold Ltd. in 2024 based on the above two accounting ratios.

(Total 12 marks)

- 8 (A) Kerry Company commenced business on 1 January 2024. The company manufactures a single product, X. The income statement for the year ended 31 December 2024 based on absorption costing is given below:

	\$	\$
Sales (13,440 units)		3,360,000
<u>Less: Cost of goods sold</u>		
Direct materials	420,000	
Direct labour	400,000	
Direct expense: royalties	140,000	
Variable manufacturing overheads	300,000	
Fixed manufacturing overheads absorbed	1,302,000	
Less: Closing inventory (3,360 units)	<u>512,400</u>	
	2,049,600	
Less: Over-absorbed fixed manufacturing overheads	<u>15,000</u>	2,034,600
Gross profit		1,325,400
Less: Fixed selling expenses		504,000
Variable selling expenses (based on the number of units sold)		<u>336,000</u>
Net profit		<u>485,400</u>

Royalties are paid based on the number of units manufactured.

REQUIRED:

- (a) Calculate the contribution margin ratio for the year ended 31 December 2024.
- (b) Calculate the breakeven sales quantity for the year ended 31 December 2024.
- (B) The management of PP Ltd. evaluated the options of either upgrading or replacing an outdated machine on 1 January 2025. The machine has a carrying amount of \$560,000 and a remaining useful life of 4 years as at 1 January 2025. Its estimated scrap value is \$210,000 on 1 January 2025 and \$0 at the end of its useful life.

Upgrade the outdated machine

As at 1 January 2025, the cost to upgrade the outdated machine will be \$1,520,000. After the upgrade, the variable manufacturing costs will be reduced by \$756,000 annually. The upgraded machine will still have a remaining useful life of 4 years, with an estimated scrap value of \$150,000.

Replace the outdated machine with an advanced model

The outdated machine would be sold on 1 January 2025 at its estimated scrap value and a new advanced model will be purchased from an overseas supplier. The price of the new machine is \$3,000,000. PP Ltd. also needs to pay \$30,000 for freight and \$50,000 for import duties. The new machine will have a useful life of 4 years and an estimated scrap value of \$7,000. With the new machine, the variable manufacturing costs will be reduced by \$84,000 per month.

If the above two options are abandoned, the company will continue to use the outdated machine for manufacturing until 31 December 2028.

REQUIRED:

- (a) Briefly explain, with supporting calculations in separate statement form, whether PP Ltd. should upgrade the outdated machine, replace the outdated machine with the advanced model, or abandon both options.

(Total 10 marks)

SECTION C (18 marks)

Answer **ONE** question in this section.

9 The trial balance of HK Ltd. as at 31 December 2024 is given below:

	Dr \$	Cr \$
Property, plant and equipment	4,257,000	
Accumulated depreciation – property, plant and equipment, 1 January 2024		3,575,880
Cost of goods sold	1,040,660	
Selling and distribution expenses	646,860	
Administrative expenses	974,000	
Inventory, 31 December 2024 [note (i)]	191,240	
Bank	7,468,272	
3% Term deposit	120,000	
Trade receivables and trade payables	1,825,000	1,717,272
Accrued debenture interest, 1 January 2024		7,500
Accrued interest income, 1 January 2024	600	
Sales		3,971,480
5% Debentures		600,000
Allowance for doubtful accounts	45,840	
Retained profits, 1 January 2024		1,697,340
Ordinary share capital, \$2 per share		5,000,000
	<u>16,569,472</u>	<u>16,569,472</u>

Additional information:

(i) Information for inventory as at 31 December 2024 is as follows:

	Cost (\$)	Estimated selling price (\$)	Estimated selling expenses (\$)	Remarks
Type A	94,000	142,000	20,000	/
Type B	97,000	128,000	34,000	/
Type C	240	/	/	Severely damaged and are worthless
Total	<u>191,240</u>	<u>270,000</u>	<u>54,000</u>	

- (ii) The 5% debentures were issued on 1 October 2019 and are redeemable after 5 years with interest payable on 30 September each year. The company redeemed the debentures and paid the interest on 30 September 2024 but these events had not been recorded in the books.
- (iii) The term deposit with an interest rate of 3% per annum was made on 1 November 2023 for a period of 5 months. The bank transferred the principal and interest to the company's current account on the maturity date but this had not been recorded in the books.
- (iv) The company issued 120,000 ordinary shares at \$1.80 per share and received subscription monies on 15 December 2024 for the subscription of 200,000 shares. The allotment of shares was completed on 24 December 2024 and the excess application monies will be refunded on 6 January 2025. Apart from recording the subscription monies received as settlement of the outstanding amounts from credit customers, no other entries were made in respect of the above events.
- (v) The company declared a final dividend of \$0.05 per share for 2023 on 1 July 2024, which will be paid on 3 January 2025. There was no record of this in the books.
- (vi) After reviewing the trade receivable accounts, it was found that a customer who owed \$8,400 was in financial difficulty. Thus, the company decided to make a full allowance for his account. For the remaining customers, the allowance for doubtful accounts was to be provided at 3% of their account balance.
- (vii) The company has only one batch of property, plant and equipment with an estimated residual value of \$280,000. Depreciation is calculated at 60% per annum using the reducing balance method.

REQUIRED:

- (a) Prepare for HK Ltd. an income statement for the year ended 31 December 2024
- (b) Prepare for HK Ltd. a statement to calculate the retained profits as at 31 December 2024.
- (c) Prepare for HK Ltd. a statement of financial position as at 31 December 2024.

(Total 18 marks)

10 AK Company prepared an adjusted trial balance as at 31 December 2024 before preparing the closing entries. As the trial balance did not agree, a suspense account was opened. Subsequent investigation revealed the following errors:

- (i) A customer returned goods purchased in cash amounted to \$5,700 during the year, and the company refunded the amount in cash. However, this had been recorded on the wrong side of the returns inwards account.
- (ii) Cash of \$7,900 was received from a credit customer to settle the outstanding amount, but only \$790 was credited to a supplier's account in the purchases ledger.
- (iii) The company donated goods costing \$8,000 to a charitable organisation but this was credited to the donation expenses account only.
- (iv) On 1 July 2024, the company traded in an old machine for a new machine with a list price of \$30,000 and received 12% trade discount. The net book value and cost of the old machine as at 1 January 2024 were \$1,776 and \$23,088, respectively. The trade-in value of the old machine was \$1,560 and the balance of the new machine will be paid next month. However, the bookkeeper debited the purchases account and credited the vendor's personal account with the cost of the new machine and made no other entries for the above trade-in arrangement.
The company's policy is to depreciate non-current assets at an annual rate of 20% on a monthly basis using the reducing balance method.
- (v) The credit side of the trade receivables account had been overcast by \$72,000.
- (vi) AK Company started publishing a monthly magazine about its products for overseas customers from November 2024. Customers are required to pay the subscription fee for 12 issues in advance. Each issue of the magazine will be delivered on the 15th day of the month of publication. The subscription details are as follows:

Month of receipt of subscription fee	Month of publication of the subscribed magazine	Amount received (\$)
October 2024	November 2024 to October 2025	180,000
November 2024	December 2024 to November 2025	96,000
December 2024	January 2025 to December 2025	120,000

The above receipts were all recorded in the subscription fee income account.

- (vii) The allowance for doubtful accounts as at 31 December 2024 was provided on the basis of 3% of trade receivables and the balance of trade receivables at 31 December 2024 was \$885,000. The allowance for doubtful accounts account for the year ended 31 December 2024 is given below:

Allowance for doubtful accounts					
2024			2024		
Dec 31	Balance c/d	44,550	Jan 1	Balance b/d	18,000
			Dec 31	Bad debts	26,550
		<u>44,550</u>			<u>44,550</u>

REQUIRED:

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required.
- (b) Prepare the suspense account to find the difference as per the trial balance.
- (c) Identify the type of accounting error made in item (vii).

(Total 18 marks)

END OF PAPER