

FANLING LUTHERAN SECONDARY SCHOOL

2024-2025 Pre Mock Examination 2

S6 BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 2

Date: February 10, 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 (A) The following account balances were extracted from the books of Mary Shum's business on 31 January 2021 :

	\$
Trade receivables	265,030
Capital	?
Sales	1,235,513
Bank	154,700
Discounts received	26,830
Loan interest	46,335
Office equipment	677,746
Maintenance fees	14,300
Returns outwards	46,905
Purchases	945,642
Loan from P Chan	150,000

REQUIRED:

- (a) Draw up a trial balance as at 31 January 2021.
- (B) Unicorn Ltd prepares its financial statements on 31 December each year. The following information related to the machine account of the business is provided :
- Purchased a machine for \$150,000 by cheque on 1 January 2017.
 - The machine was traded in for a new one on 1 November 2019. The trade-in value of the machine was \$50,000. The cost of the new machine was \$180,000. The balance was not yet settled as at 31 December 2019.
 - Unicorn Ltd's policy is to charge depreciation at the rate of 20% per annum using the straight-line method.

REQUIRED :

- (a) Prepare the following accounts for the year ended 31 December 2019:
- Machinery
 - Accumulated depreciation account : machinery
 - Disposal: Machinery

(Total 8 marks)

- 2 Mary Lam is a sole trader. The business keeps the following books of original entry: General Journal, Sales Journal, Purchases Journal, Returns Inwards Journal, Returns Outwards Journal and Cash Book. She recorded her business transactions for December 2022 in the following manner.

	Transaction	Book of original entry	Account(s) to be debited	Account(s) to be credited
(i)	Bought goods for \$2,000 on credit from Perry Leung.	(1)	(2)	(3)
(ii)	Received a cheque of \$4,500 from Joe Ho, a customer, after allowing a discount of \$100.	(4)	(5)	(6)
(iii)	Sold office fixtures at their cost of \$20,000 on credit to Connie Wong.	(7)	(8)	(9)
(iv)	Sold office equipment at its cost of \$3,000 in cash.	(10)	(11)	(12)
(v)	Paid wages of \$9,500 in cash.	(13)	(14)	(15)
(vi)	Returned goods costing \$200 to a supplier. The goods were not yet paid for.	(16)	(17)	(18)
(vii)	Bought motor vehicles for \$125,000 on credit from Peter Ko for business use.	(19)	(20)	(21)
(viii)	The owner took goods costing \$18,600 without paying for them.	(22)	(23)	(24)
(ix)	Paid \$200 cash to Jane Sing, a supplier.	(25)	(26)	(27)
(x)	The owner withdrew \$100 from the business bank account for private use.	(28)	(29)	(30)

- (a) Help Mary to complete the table above.
- (b) Prepare appropriate T-accounts to record transactions of (i), (vi) and (viii).

(Total 8 marks)

- 3 (A) Tat Kee is a trading firm that deals in only one type of goods. Its inventory as at 31 December 2019 consisted of 100 units and was valued at \$99,900. During the year ended 31 December 2020, 500 units of goods were sold. Purchases during the same period are as follows :

2020

Jan 5 Purchased 125 units for \$900 each.

Mar 11 Purchased 210 units for \$199,000.

Jun 9 Purchased 45 units with a list price of \$1,200 each. A trade discount of 20% was given.

Oct 18 Purchased 220 units for \$216,000.

REQUIRED :

- (a) Calculate the value of inventory as at 31 December 2020 using the weighted average cost method

The following information related to inventory of Tat Kee as at 31 December 2021:

- (i) Inventory was valued at \$100,000.
- (ii) A batch of 100 units of products were sent to a customer on a sale-or-return basis. The customer confirmed that he would accept 70% of the goods. The products were sold for \$1,200 each. Tat Kee sells all its products at a uniform profit margin of 25%.
- (iii) Another batch of five items were obsolete. They could be sold for \$800 each only after replacing cost at \$100 each. The obsolete items costing \$1,000 each.

REQUIRED :

- (b) Calculate the correct value of inventory as at 31 December 2021.

- (B) The following are some accounting principles and conventions:

- Historical cost principle
- Prudence concept
- Going concern
- Business entity
- Accrual
- Materiality
- Realisation

REQUIRED :

- (b) State which accounting concept or principle was applied in each of the following situations:

- (i) The company's accountant continued to record business transactions on a going-concern basis even though one of its shareholders had been declared bankrupt.
- (ii) Rates prepaid for the next financial year were deducted from the rates account for the current financial year.
- (iii) One of the trade debtors was in financial difficulty as it had lost many of its large customers. The company's accountant decided to create an allowance for doubtful debts for this trade debtor.
- (iv) Inventory was recorded at its original cost of purchase instead of market value.
- (v) No record was made in the books of the business for the owner's personal entertainment expenses.

(Total 8 marks)

- 4 (A) The following information about the product produced by Carlton Limited is given:

Units produced and sold	2,000	3,000
	\$	\$
Sales	170,000	255,000
Less Direct materials	60,000	90,000
Direct labour	58,000	87,000
Indirect manufacturing overheads	<u>20,000</u>	<u>26,000</u>
Profit	<u>32,000</u>	<u>52,000</u>

REQUIRED :

- (a) Calculate:
- Unit selling price
 - Unit direct materials cost
 - Unit direct labour cost
- (b) Use the high-low method to calculate the following:
- Unit variable indirect manufacturing overheads
 - Fixed manufacturing overheads
- (B) Susan Cheung has been operating a retail business for years. The following figures were extracted from her firm's books as at 30 June 2021, the year-end date :

	\$
Sales	1,908,050
Inventory, 30 June 2021	63,555
Inventory, 1 July 2020	98,080
Insurance	264,000
Salaries	960,000
Carriage inwards	28,985
Carriage outwards	7,650
Purchases	1,260,104
Miscellaneous expenses	60,000

REQUIRED :

Prepare an income statement for the year ended 30 June 2021.

(Total 8 marks)

- 5 The bank account of JC Ltd showed a credit balance of \$2,953 as at 31 December 2022, which did not agree with the balance shown in the bank statement as at the same day.
- A direct debit of \$2,241 for water fees was not recorded in the bank account.
 - The bank mistakenly made a debit entry of \$700 in JC Ltd's account on 30 December 2022. The mistake was corrected on 2 January 2023.
 - Annual charges of the bank account, amounting to \$500 were shown in the bank statement but not in the bank account.
 - The following cheques were issued to suppliers but were not yet presented for payment:

	Date of issue	Amount (\$)
Carl Chan	19 June 2022	3,153
Beauty Co	22 December 2022	3,998
Joe Lee	28 December 2022	2,517
 - Bank interest of \$300 was credited by the bank but was not recorded in the bank account.
 - A cheque of \$345 issued by Irine Yu, a trade debtor, was returned by the bank. This event was not recorded in the bank account.
 - A cheque payment for rates of \$1,324 was recorded as \$1,432 in the books.
 - Cheques received and deposited on 30 and 31 December 2022 amounted to \$7,831. These cheques were recorded in the bank account but were not shown in the bank statement.
 - On 1 January 2022, JC Ltd made a term deposit of \$10,000 for one year at an interest rate of 5% per annum. The bookkeeper recorded the receipt of \$10,500, including principal and interest, on 31 December 2022. As the maturity date of the term deposit was 1 January 2023, this receipt was not shown in the bank statement.

REQUIRED :

- Update the bank account.
- Prepare a bank reconciliation statement as at 31 December 2022, commencing with the updated bank account balance.

(Total 6 marks)

SECTION B (32 marks)

Answer **ALL** questions in this section.

- 6 Lin and Kam were in partnership sharing profit and losses in the ratio of 3 : 1. All partners would be credited with interest of 5% per annum on their opening capital balances. The trial balance as at 31 December 2021 was as follows :

	Dr	Cr
	\$	\$
Capital: Lin		600,000
Kam		800,000
Current: Lin	8,550	
Kam		18,500
Plant and machinery, net book value	920,000	
Motor vehicles, net book value	354,333	
Inventory	95,040	
Bank loan (repayable on 31 December 2028)		120,000
Trade receivables	246,900	
Bank	73,677	
Trade payables		160,000
	<u>1,698,500</u>	<u>1,698,500</u>

On 1 January 2022, Kam withdrew from the partnership and Tang was admitted as a partner. She paid in \$650,000 by cheque of which \$60,000 was for her share of goodwill. Regarding the withdrawal of Kam and admission of Tang, the partners reached the following agreement:

- Kam would be paid \$500,000 by the partnership immediately upon his withdrawal and the balance owed would be kept in the new partnership as a three-year loan.
- The profit and loss sharing ratio for Lin and Tang would be 2 : 1.
- No goodwill account was to be kept in the books.
- The plant and machinery and motor vehicles were revalued to \$980,000 and \$258,000, respectively. Other assets and liabilities would remain at book value.
- An allowance for doubtful debts of 3% was to be made.
- Lin was entitled to a monthly salary of \$10,000.

REQUIRED :

- Prepare the revaluation account and capital accounts of Lin, Kam and Tang in columnar form.
- Prepare the new partnership's statement of financial position as at 1 January 2022.
- Given that the net profit for year 2022 was \$435,829, prepare the partners' current accounts for the year ended 31 December 2022 in columnar form.

(Total 12 marks)

7 (A) Joanne Wu is the owner of Joanne & Co. She prepared a trial balance for her business as at 31 December 2022, which did not agree. A suspense account was then opened to record the trial balance difference. The following errors were discovered later:

- (i) On 1 January 2022, motor vehicles costing \$120,000 were purchased on credit from Great Motor Co. The motor vehicles were purchased for business use. The transaction was recorded as follows:

Dr Purchases \$120,000
 Cr Great Motor Co \$120,000

It was the firm's policy to depreciate motor vehicles using the reducing-balance method. The depreciation rate was 25% per annum.

- (ii) Cash sales of \$580 were omitted from the books.
(iii) The purchases day book was undercast by \$1,250.
(iv) A cheque for \$21,580 was issued to fully settle the balance of \$22,000 owed to Bonnie Ltd, a trade creditor. The following entries were made:

Dr Johnny Ltd \$22,000
 Cr Discounts allowed \$420
 Cr Bank \$21,580

- (v) The entries to record bank overdraft interest of \$500 were made in reverse.
(vi) Sold goods for \$6,000 to Jason Co on credit. Only the debit entry was made in the books.
(vii) Returns inwards of \$12,500 were listed as \$1,250 on the wrong side of the trial balance.
(viii) Joanne made cash drawings of \$5,000 during the year. The following entries were made:

Dr Cash \$5,000
 Dr Capital \$5,000

REQUIRED :

- (a) Prepare journal entries to correct the above errors. Narrations are not required.
(b) The draft net profit for the year ended 31 December 2022 was \$70,000. Prepare a statement to calculate the correct net profits for 2022.

(B) Lamwood Manufacturing Company manufactures a component for its production of small electrical appliance. The management is considering whether the company should continue producing the component itself or purchase from a supplier. The cost of producing the component is expected for the next year as follows :

Production	2,000 units
	\$
Direct materials	30 per unit
Direct labour	60 per unit
Variable production overheads	20 per unit
Avoidable fixed costs	20,000
Other fixed costs	60,000

A supplier offers to supply Lamwood Manufacturing Company the component at \$120 per unit. If the component is purchased from the supplier, part of its production plant can be leased for \$30,000 in the next financial year.

REQUIRED :

Explain, with supporting calculations, whether Lamwood Manufacturing Company should accept the supplier's offer.

(Total 10 marks)

- 8 You are given the trial balance of Iris Ltd as at 31 December 2022, before the accountant prepared the financial statements:

Iris Ltd		
Trial Balance as at 31 December 2022		
	Dr	Cr
	\$	\$
Furniture and fixtures, at cost	4,200,000	
Furniture and fixtures, accumulated depreciation		900,000
Purchases and sales	982,100	2,914,980
Ordinary share capital		2,000,000
6% debentures (repayable in 2027)		500,000
Inventory, 1 January 2022	27,700	
Selling and distribution expenses	419,230	
Administrative expenses	774,990	
Retained earnings, 1 January 2022		125,000
Trade receivables and payables	64,500	28,530
Cash at bank		10
	<u>6,468,520</u>	<u>6,468,520</u>

Additional information:

- (i) Furniture and fixtures are to be depreciated based on the straight-line method, with an annual depreciation rate of 12%. Depreciation expenses are to be treated as administrative expenses.
- (ii) The debentures listed in the trial balance was issued on 1 December 2022. There was no debenture interest payment during the financial year.
- (iii) Inventory as at 31 December 2022 was valued at \$52,000. An inventory item which cost \$5,000 was damaged and could be sold for \$6,000 after spending \$3,000 to repair it.
- (iv) The board of directors resolved to transfer \$200,000 to the general reserve.
- (v) Distribution expenses of \$5,000 were accrued.
- (vi) On 1 December 2022, goods with invoice value of \$20,000 were sent to Lucy Ltd on a sale-or-return basis. This transaction was recorded as a credit sale immediately. As at 31 December 2022, 90% of the goods had been sold by Lucy Ltd. The unsold goods were included in the closing inventory of Iris Ltd at cost.

REQUIRED :

- (a) Prepare an income statement for the year ended 31 December 2022
- (b) Prepare a statement to calculate the retained profits as at 31 December 2022.
- (c) Prepare a statement of financial position as at 31 December 2022

(Total 10 marks)

SECTION C (18 marks)

Answer **ONE** question in this section.

- 9 (A) Blossom Limited manufactures three products: A, B and C. The following information relates to the three products :

Per unit	A	B	C
Selling price	\$320	\$300	\$280
Direct materials (\$20 per kg)	\$60	\$75	\$80
Direct labour (\$40 per hour)	\$80	\$60	\$40
Variable production overheads	\$90	\$120	\$100
Fixed production overheads	\$40	\$30	\$20
Maximum monthly demand in units	2,000	3,000	2,800

Fixed production overhead rate is \$20 per direct labour hour, calculated based on total labour hours required to produce all three products as demanded. There is a maximum of 10,100 labour hours available per month.

REQUIRED :

- Show the priority of production for the three products and determine the optimum production plan which will maximise the monthly profit. Show all calculations.
- Prepare a contribution income statement (by product in columnar format) showing the maximum profit earned under the optimum production plan in (a).

- (B) A-Tech Limited makes and sells one product. The standard production cost for one unit of the product is as follows :

	\$
Direct labour	42
Direct materials	60
Manufacturing overhead: Variable	10
Fixed	50
Standard production cost	<u>162</u>

Fixed manufacturing overhead is calculated based on normal production level of 10,000 units annually. Costs relating to selling and administration are:

Variable: 20% of sales value
Fixed: \$220,000 per annum

The selling price per unit of the product is \$340. There is no inventory as at 1 January 2023. The number of units to be produced and sold for the year ended 31 December 2023 are budgeted as follows:

Production: 11,000 units
Sales: 9,860 units

REQUIRED :

- Prepare for A-Tech Limited an income statement for the year ended 31 December 2023 under marginal costing.
- Prepare for A-Tech Limited an income statement for the year ended 31 December 2023 under absorption costing.
- State the major difference in the treatment of product cost between marginal costing and absorption costing. Which costing method will not affect the profit computed when the production level changes?

(Total 18 marks)

- 10 Katherine Chan is the sole proprietor of a book wholesale business. The only records she kept consisted of entries made in a notebook. The following is a summary of the business's bank statements for the year ended 31 December 2023:

Deposits:

Cheque receipts from trade debtors	\$345,000
Cash	\$180,750
Sale proceeds from furniture disposals	\$5,250

Payments:

Trade creditors	\$185,100
Rent and rates	\$20,250
Motor vehicles	\$67,500
Electricity	\$14,550
Salaries	\$84,000
Sundry expenses	\$12,750

The cash deposits represented cash sales made during the year after the following payments were made:

Drawings	\$18,000
Sundry expenses	\$1,470
Insurance	\$9,780
Broadband fees	\$1,860

The following were the asset and liability balances extracted from Katherine's notebook:

	31 Dec 2022	31 Dec 2023
Furniture, at net book value	\$97,800	?
Motor vehicles, at net book value	\$31,500	?
Trade receivables	\$69,300	\$58,650
Inventory	\$14,775	\$12,405
Trade payables	\$41,100	\$37,800
Prepaid rent	\$4,050	\$3,150
Accrued electricity	\$525	\$735
Cash at bank	\$31,800	—

During the year, a furniture item with a net book value of \$3,450 was disposed of. It is the firm's policy to charge a full year's depreciation in the year of acquisition and no depreciation in the year of disposal. Depreciation on a reducing-balance basis is charged on non-current assets at the following rates:

Furniture	10% per annum
Motor vehicles	25% per annum

REQUIRED :

Prepare the following for Katherine Chan's business:

- (a) Bank account
- (b) Cash account
- (c) Income statement for the year ended 31 December 2023
- (d) Statement of financial position as at 31 December 2023

(Total 18 marks)

END OF PAPER