

**SECTION A (24 marks)**

Answer **ALL** questions in this section.

1. The trade receivables of A&B Company as at 1 December 2013 amounted to \$399 700. The following information relates to the month ended 31 December 2013.

	\$
Cash sales	217 600
Credit sales	4 392 400
Returns outwards	373 200
Returns inwards	23 280
Allowance to customers for defective goods	31 120
Collections from credit customers	4 137 400
Payments to suppliers	2 050 200
Bad debts written off	36 000

**REQUIRED:**

- (a) Write up the sales ledger control account for the month ended 31 December 2013. (4 marks)
- (b) The opening balance of the allowance for doubtful debts account as at 1 January 2013 amounted to \$38 000. Suppose the company estimated that 6% of the trade receivables as at 31 December 2013 was doubtful. Prepare the journal entry for adjusting the allowance for doubtful debts as at 31 December 2013. (3 marks)
- (Total: 7 marks)

2. Angel Company has its financial year ending on 31 December. It purchased a machine for \$240 000 on 1 January 2011. The machine has been depreciated using the straight-line method based on an estimated useful life of 10 years and residual value of \$4000. The depreciation expense is calculated on a monthly basis.

On 1 January 2012, an amount of \$180 000 was spent on the machine to increase its productivity. It was expected that after the improvement, the annual repair costs would be reduced by \$13 500, with no change in the remaining useful life and residual value.

Unfortunately, the machine was totally destroyed in an accident on 30 June 2013. On 15 October 2013, the insurance company agreed to pay compensation of \$210 000 in January 2014.

**REQUIRED:**

- (a) Compute the depreciation expense for each of the three years of 2011, 2012 and 2013. (4 marks)
- (b) Prepare the journal entries for recording the disposal of the machine in 2013. Narration is not required. (3 marks)
- (Total: 7 marks)

3. A company uses a machine for production. For each of the descriptions in (a) to (d) below, indicate which of the following cost classification is most suitable:

- Fixed cost
- Variable cost
- Semi-variable cost
- Step cost
- Sunk cost
- Incremental cost
- Opportunity cost

(a) A worker is employed to operate the machine for a monthly wage of \$6000 plus \$0.3 per unit produced.

The total cost of hiring the worker is a / an \_\_\_\_\_.

(b) The machine has a net book value of \$52 000. In evaluating whether to sell the machine, the net book value is a / an \_\_\_\_\_.

(c) The machine can now be sold for \$5000. If the company decides to retain and use it, the saleable value is a / an \_\_\_\_\_.

(d) If the machine is sold, the company will rent a new machine for \$20 000 per annum. Under marginal costing, the annual rental charge for the new machine is a / an \_\_\_\_\_.

(4 marks)

4. Beauty Sports Company produces and sells two types of aerobic-training products: instructional DVDs and dancer kits. Information on the two products in 2014 is as follows:

	<u>DVD</u>	<u>Dancer Kit</u>
Units selling price	\$150	\$600
Unit variable cost	\$30	\$125

The annual total fixed cost is \$860 000.

**REQUIRED:**

(a) In 2013, Beauty Sports Company sold 25 000 DVDs and 5000 Dancer Kits. Assuming that the ratio of the sales quantity of the two products will be maintained, calculate the sales quantity for each product in 2014 at the breakeven point. (3 marks)

From 2015 onwards, Beauty Sports Company will produce and sell dancer kits only. Improvements will be made to the dancer kits and it is estimated that the unit variable cost will increase by \$75 while the projected sales quantity is 6250 with no change in the selling price. The annual total fixed cost will be reduced by \$160 000.

**REQUIRED:**

(b) Calculate the margin of safety in sales dollars for Beauty Sports Company in 2015. (3 marks)  
(Total: 6 marks)

**SECTION B** (36 marks)

Answer **ALL** questions in this section.

5. Abby and Bobby are partners sharing profits and losses in the ratio of 2:3 respectively. The following terms are included in the partnership agreement:
- Interest on partners' capital is 8% per annum.
  - Interest on partners' drawings is charged at 10% per annum.
  - Abby is entitled to an annual salary of \$60 000.

The following balances was extracted from the books of the partnership as at 31 December 2013:

	Dr	Cr
	\$	\$
Capital accounts - Abby		150 000
- Bobby		300 000
Current accounts - Abby	43 000	
- Bobby		27 000
Partners' salary – Abby	20 000	
9% bank loan		280 000
Inventory	84 000	
Accounts receivable	250 000	
Accounts payable		126 000
Net profit for the year		165 000
Drawings – Abby (withdrawn on 1 March 2013)	18 000	
Drawings – Bobby (withdrawn on 1 September 2013)	12 000	

Additional information:

- (i) Interest on the 9% bank loan for the quarter ended 31 December 2013 had not been paid or provided for.
- (ii) During the year, goods invoiced at \$20 000 were sent to a customer on a sale-or-return basis. These goods had been marked up at 25% on cost and recorded as sales for the year. As at 31 December, only 80% of these goods were accepted by the customer.

**REQUIRED:**

- (a) Prepare a statement to calculate the partnership's adjusted net profit for the year ended 31 December 2013. (2 marks)
- (b) Prepare the partnership's appropriation account for the year ended 31 December 2013. (4 marks)
- (c) Update the partners' current accounts in columnar form as at 31 December 2013. (5 marks)

(Total: 11 marks)

6. Peter started his business on 1 January 2012. A fire on 31 December 2013 destroyed some accounting records and inventory. The following balances as at 31 December were extracted from the remaining records:

	2013	2012
	\$	\$
Office equipment, at cost (all purchased on 1 January 2012)	180 000	180 000
Inventory	65 000	75 000
Trade receivables	80 000	90 000
Trade payables	32 000	18 000

The following information relating to the year ended 31 December 2013 was also available:

- (i) All goods were sold on credit and sales were evenly spread throughout the year. All goods were sold at the uniform margin of 60% on sales.
- (ii) The average trade receivables collection period was 2 months.
- (iii) All purchases were on credit and the average trade payables turnover was 9 times.
- (iv) Advertising expenses of \$8000, rental expense of \$37 200 and salaries of \$144 000 were incurred in 2013. No compensation would be received for the fire loss.
- (v) Depreciation is to be provided at the annual rate of 20% using the reducing-balance method.

**REQUIRED:**

- (a) Prepare for Peter's business the income statement for the year ended 31 December 2013, showing all the necessary items including sales, purchases and inventory loss. (9 marks)
- (b) Although accounting ratios are useful tools in financial analysis, there are limits to their usefulness. State two of these limitations. (2 marks)

(Total: 11 marks)

7. Goodwork Company uses the job costing system and applies a plant-wide production overhead absorption rate based on direct labour hours. The predetermined rate for the year ended 31 March 2014 was \$7.0 per direct labour hour. The actual total production overheads and total direct labour hours for the year were \$1 100 000 and 180 000 hours respectively.

**REQUIRED:**

- (a) Calculate the under- or over-absorption of production overheads of Goodwork Company for the year ended 31 December 2014. (2 marks)
- (b) Despite the inevitable occurrence of under- or over-absorption of production overheads, a predetermined overhead rate is more commonly used than an absorption rate based on actual data. Explain why. (2 marks)

The following data relate to the two production departments of Goodwork Company for the coming year, which will end on 31 March 2015:

	<u>Department A</u>	<u>Department B</u>
Total material cost (of which 30% is direct materials)	\$300 000	\$100 000
Total labour cost (of which 80% is direct labour)	\$820 000	\$530 000
Factory depreciation	\$339 000	\$66 000
Other indirect expenses	\$126 000	\$24 000
Normal activity (direct labour hours)	100 000 hours	70 000 hours

**REQUIRED:**

- (c) Calculate (to one decimal place) the plant-wide production overhead absorption rate of Goodwork Company for the year ending on 31 March 2015. (3 marks)

Two job orders, Job #103 and Job #104, have been scheduled for the coming year. The direct labour usage is estimated as follows:

	<u>Department A</u>	<u>Department B</u>
Job #103	1000 hours	3000 hours
Job #104	3300 hours	1100 hours

**REQUIRED:**

- (d) Calculate the overhead cost to be assigned to each of the two job orders using the plant-wide production overhead absorption rate obtained in (c) above. (2 marks)

Goodwork's plant manager heard that departmental production overhead absorption rates could be better for cost assignment than a plant-wide rate.

**REQUIRED:**

- (e) Based on the estimated direct labour usage of Job #103 and Job #104 above, explain whether departmental overhead rates or a plant-wide rate will provide a fairer overhead assignment. Support your answer with calculations. (5 marks)

(Total: 14 marks)

**SECTION C (20 marks)**

Answer **ONE** question in this section.

8. **[Modified]** After preparing the necessary entries to calculate the cost of good sold, the bookkeeper of Windy Company Limited prepared the trial balance as at 31 December 2013 as follows:

	Dr	Cr
	\$	\$
Ordinary share capital <del>\$5 Ordinary Shares, fully paid</del>		1 709 500
Accumulated depreciation – equipment, 1 January 2013		630 000
Administrative expenses	276 000	
Cash at bank	5 126 400	
Cost of goods sold	1 220 000	
Equipment	3 769 000	
Finance cost	24 000	
Inventory, 31 December 2013	253 200	
Retained profits, 1 January 2013		566 000
Sales		1 950 000
Selling and distribution expenses	168 400	
Share issue		6 000 000
<del>Share premium</del>		<del>209 500</del>
Trade receivables and trade payables	<u>381 600</u>	<u>363 100</u>
	<u>11 218 600</u>	<u>11 218 600</u>

Additional information:

- (i) On 1 July 2013, a rubbish bin costing \$60 was bought for office use. The estimated useful life is 5 years. The amount had been included in administrative expenses.
- (ii) Depreciation expenses of \$182 000 for 2013 had been omitted. It is the company's practice to classify depreciation expenses as administrative expenses.
- (iii) Goods invoiced at \$38 000 were returned by a credit customer but this had been recorded as returns outwards to a supplier at the purchase cost of \$23 600. The goods had been included in the closing inventory at cost.
- (iv) Part of the closing inventory costing \$53 240 was slightly damaged and could only be sold for \$33 440.
- (v) On 21 December 2013, 600 000 ordinary shares ~~of \$5 each~~ were issued at \$8 each. The subscription monies for 750 000 shares were received and recorded in the cash at bank and share issue accounts. Shares were allotted and the unsuccessful applicants refunded on 30 December 2013 but no entries had been made in the books.
- (vi) On 31 December 2013, the board of directors resolved to transfer \$500 000 to general reserve.

**REQUIRED :**

- (a) With reference to a relevant accounting principle, explain whether the accounting treatment for the rubbish bin in (i) is proper. (3 marks)
- (b) Prepare for Windy Company Limited the income statement for the year ended 31 December 2013 and the statement of financial position as at the date. (13 marks)
- (c) If Windy Company Limited issue debentures instead of ordinary shares in December 2013, explain how the profitability and solvency of the company will be affected in the coming years. (4 marks)

(Total: 20 marks)

9. Nice Company is a retail shop selling computer hardware. The balance of the company's cash at bank account as at 31 December 2013 amounted to \$56 000 and did not agree with the bank statement balance on that date. The following information relating to the financial year

- (i) A payment by cheque to a supplier for \$2700 had been wrongly recorded as a receipt in the cash at bank account and posted to the related personal account in the purchases ledger accordingly.
- (ii) Dividend income amounting to \$1250 had been credited by the bank but had not been recorded in the company's cash at bank account.
- (iii) A credit transfer of \$3500, from a source unknown to the company and dated 15 December 2013, was recorded in the bank statement. Subsequent investigation revealed that the transfer should have been made to another customer of the bank with a similar name.
- (iv) A debit of \$3260 was recorded in the bank statement for a dishonoured cheque.
- (v) The cash at bank account included a post-dated cheque for \$6750 received from a customer. The cheque was still kept in the cashier's desk on 31 December 2013.
- (vi) As at 31 December 2013, unpresented cheques amounting to \$5500 and a deposit of \$53 100 had not been recorded by the bank.
- (vii) In launching a new product, samples were sent free of charge to a customer in November 2013 but this had been wrongly recorded as a credit sale of \$22 900 to the customer. The cost of these goods was \$16 000.
- (viii) Rental amounting to \$20 400 for the year ended 31 March 2014 was paid on 1 April 2013 and the whole amount had been debited to the rental expenses account.
- (ix) Starting from November 2013, Nice Company provides maintenance services to customers, who are required to pay a maintenance fee in advance. The following receipts were credited to the maintenance expenses account:

Service Plan Commencement Date	2-year Service Plan	3-year Service Plan
1 November 2013	—	\$108 000
1 December 2013	\$72 000	\$144 000

**REQUIRED :**

- (a) Update the cash at bank account as at 31 December 2013. (5 marks)
- (b) Write up a bank reconciliation statement as at 31 December 2013, commencing with the updated balance of the cash at bank account. (4 marks)
- (c) Prepare the journal entries necessary for items (vii) to (ix). Narrations are not required. (5 marks)
- (d) Identify the relevant revenue recognition principle and explain your accounting treatment for item (ix). (3 marks)

Subsequent to the preparation of the financial statements for the year ended 31 December 2013, the owner of Nice Company was surprised to find that the bank balance had decreased even though the net profit had increased.

**REQUIRED :**

- (e) Briefly describe two transactions that will result in increase in a company's net profit but will not cause corresponding in its cash and bank balances. (3 marks)

(Total: 20 marks)

**END OF PAPER**