

**SECTION A** (24 marks)

Answer **ALL** questions in this section.

1. The bookkeeper of PQR Limited prepared the following trial balance as at 31 December 2015:

|                                      | Dr<br>\$         | Cr<br>\$         |
|--------------------------------------|------------------|------------------|
| Equipment, at cost                   |                  | 1 922 000        |
| Accumulated depreciation - equipment | 218 000          |                  |
| Inventory                            | 155 070          |                  |
| Unearned revenue                     |                  | 240 400          |
| Retained profits                     | 429 930          |                  |
| Share capital                        | 1 650 000        |                  |
| Trade receivables                    |                  | 461 260          |
| Suspense                             | 170 660          |                  |
|                                      | <u>2 623 660</u> | <u>2 623 660</u> |

**REQUIRED:**

- (a) Prepare a corrected trial balance as at 31 December 2015 for PQR Limited. (4 marks)
- (b) State one limitation of a trial balance. (1 mark)
- (Total: 5 marks)

2. ABC Company keeps the following four ledgers only: cash book, general ledger, purchases ledger and sales ledger. Indicate the accounts to be debited and credited, and the ledgers to be recorded for transactions (a) to (e) in the table below. Write your answers for items (1) to (20) in the answer book.

| Transaction  |   | Debit entry to be recorded |                       | Credit entry to be recorded |                  |
|--------------|---|----------------------------|-----------------------|-----------------------------|------------------|
|              |   | Account                    | Ledger                | Account                     | Ledger           |
| <i>e. g.</i> | <i>Equipment purchased in cash</i>        | <i>Equipment</i>           | <i>General ledger</i> | <i>Cash</i>                 | <i>Cash book</i> |
| (a)          | <b>Office rent paid by cheque</b>         | (1)                        | (2)                   | (3)                         | (4)              |
| (b)          | <b>Goods purchased on credit</b>          | (5)                        | (6)                   | (7)                         | (8)              |
| (c)          | <b>Bank loan acquired</b>                 | (9)                        | (10)                  | (11)                        | (12)             |
| (d)          | <b>Goods returned by credit customers</b> | (13)                       | (14)                  | (15)                        | (16)             |
| (e)          | <b>Interest income accrued</b>            | (17)                       | (18)                  | (19)                        | (20)             |

(Total: 5 marks)

3. Thomson Company computes its annual predetermined manufacturing overhead absorption rate on the basis of machine hours. In December 2014, it estimated that 50 000 machine hours would be required for the planned level of production in 2015. The company also estimated that fixed manufacturing overhead would amount to \$450 000 and variable manufacturing overhead would be \$6 per machine hour for 2015.

The actual manufacturing overheads for 2015 were \$717 000 and the actual number of machine hours was 48 000 hours.

**REQUIRED:**

- (a) Calculate the predetermined manufacturing overhead absorption rate for 2015. (2 marks)
- (b) Calculate the under-absorption or over-absorption of manufacturing overheads for 2015. (2 marks)
- (c) For the under-absorbed or over-absorbed manufacturing overheads calculated in (b), state the accounting treatment and its impact on the net profit for 2015. (2 marks)
- (d) State one variable manufacturing overhead cost which increases with the usage of machine hour. (1 mark)

(Total: 7 marks)

4. 'Going concern' is an important assumption for the preparation of financial statements.

**REQUIRED:**

- (a) Explain the going concern assumption. (2 marks)
- (b) How are non-current assets valued when the going concern assumption no longer holds for a company? (1 mark)

The directors of Nice Limited noticed that the fair value of the existing equipment had increased dramatically at the end of 2015 due to the anticipated shortage of supply of the equipment in the next two years. Although the company would continue to use the equipment, the directors decided to record the fair value of the equipment in the financial statements of 2015.

**REQUIRED:**

- (c) Identify and explain the accounting principle or concept that has been violated above. (2 marks)

As at 31 December 2015, the ageing schedule of the accounts receivable of Nice Limited was as follows:

| Age of accounts receivable | Amount of accounts receivable | Estimated doubtful debts |
|----------------------------|-------------------------------|--------------------------|
| 1 – 30 days                | \$450 000                     | 1%                       |
| 31 – 60 days               | \$180 000                     | 3%                       |
| Over 60 days               | \$ 60 000                     | 10%                      |

After preparing the ageing schedule, the company noticed that one of the customers who had owed the company \$20 000 for 55 days had declared bankruptcy. The company decided to write this debt off.

**REQUIRED:**

- (d) Based on the above information, calculate the balance of the allowance for doubtful debts account of Nice Limited as at 31 December 2015. (2 marks)

(Total: 7 marks)

**SECTION B** (36 marks)

Answer **ALL** questions in this section.

5. Chu and Yan have been in partnership for many years, sharing profits and losses in the ratio of 3:2. The statement of financial position as at 31 December 2015 was drafted as follows:

|                   |                  |
|-------------------|------------------|
|                   | \$               |
| Property, net     | 782 000          |
| Inventory         | 266 600          |
| Trade receivables | 230 000          |
| Cash              | 41 400           |
|                   | <u>1 320 000</u> |
| Capital – Chu     | 705 000          |
| – Yam             | 45 000           |
| Bank loan         | 15 000           |
| Trade payables    | 555 000          |
|                   | <u>1 320 000</u> |

On 1 January 2016, Mak was admitted as a new partner on the following terms:

- (i) Chu, Yam and Mak would share profits and losses in the ratio of 3:2:1.
- (ii) Goodwill was to be valued at \$150 000. No goodwill account was to be maintained in the books.
- (iii) Property and inventory were to be revalued at \$2 020 000 and \$133 200 respectively.
- (iv) An allowance for doubtful debts of 1% was to be made.
- (v) Professional fees of \$26 200 were paid in cash for the revaluation of assets.
- (vi) The initial capital of the new partnership would be \$1 500 000, to be contributed by Chu, Yam and Mak in the ratio of 40%, 35%, and 25% respectively. Any surplus or deficit would be adjusted through partners' injection or withdrawal of cash.

**REQUIRED:**

- (a) Prepare the following accounts:
    - (i) Revaluation account for the admission of Mak
    - (ii) Capital accounts of the partners as at 1 January 2016 in columnar form, showing the admission of Mak (8 marks)
  - (b) Give two factors that affect the value of goodwill of a company. (2 marks)
- (Total: 10 marks)

6. The following accounts have been extracted from the ledger of Sum Kee Logistic Company as at 1 January 2015:

|   |           |
|---|-----------|
|   | \$        |
| Motor vehicles                            | 1 200 000 |
| Accumulated depreciation – motor vehicles | 150 000   |

All motor vehicles were purchased on 1 January 2014 and the company depreciates its motor vehicles over eight years on a monthly basis using the straight-line method.

During the year ended 31 December 2015, the following transactions regarding motor vehicles occurred:

- (i) On 1 March 2015, a motor vehicle costing \$120 000 was sold for cash at a gain of \$12 400.
- (ii) On 1 April 2015, another motor vehicle with accumulated depreciation of \$28 000 at 1 January 2015 was totally scrapped in a car accident. On 1 November 2015, the insurance company agreed to pay 80% of the net book value of the motor vehicle on the date of the accident as compensation in February 2016.

**REQUIRED:**

For Sum Kee Logistic Company, prepare the following accounts for the year ended 31 December 2015:

- (a) Motor vehicles account (2 marks)
- (b) Accumulated depreciation – motor vehicles (4 marks)
- (c) Disposal account- motor vehicles (4 marks)

On 1 January 2016, the motor vehicles were modified so as to increase their efficiency. There was no change in their useful life after modification. The total payments made by cheque were \$264 000, which included upgrading parts and components of \$240 000, testing and inspection fees of \$20 000 and an annual license fee of \$4000.

**REQUIRED:**

- (d) Prepare the journal entry to record the above payments on 1 January 2016. Narration is not required. (2 marks)

(Total: 12 marks)

7. Anson Company started to manufacture a toy plane 'Hippo' as its only product line in 2015. It uses the absorption costing system. The cost information for 'Hippo' is given below:

|                               | <u>\$ / unit</u> |
|-------------------------------|------------------|
| Direct materials              | 18               |
| Direct labour                 | 12               |
| Total manufacturing overheads | 6                |

- (i) The total manufacturing overheads include both variable and fixed manufacturing overheads, based on the production of 10 000 units of 'Hippo' each year.
- (ii) Fixed manufacturing overheads for 2015 was estimated to be \$40 000, which was the same as the actual amount.
- (iii) The company hired two salesmen for a total annual salary of \$128 000 to sell 'Hippo'. On top of the salary, there was an incentive payment to the salesmen of 5% of sales.
- (iv) 'Hippo' was sold at a selling price of \$60 per unit.
- (v) The actual production and sales of 'Hippo' for 2015 were 10 000 units and 9 000 units respectively.

The company is considering using the marginal costing system.

**REQUIRED:**

- (a) Prepare for Anson Company the income statement for the year ended 31 December 2015 using the marginal costing system. Show separately the contribution and the net profit. (5 marks)
- (b)(i) Calculate the amounts of inventory as at 31 December 2015 under the marginal and absorption costing systems respectively. (2 marks)
- (ii) Explain the reason for the difference in the amounts of inventory in (b)(i) above. (2 marks)
- (c) Compare the net profits of 2015 under the marginal and absorption costing systems. (2 marks)

Anson Company receives an offer from a local supplier to supply a component for 'Hippo' at a price of \$5.7 per unit. The company estimates that if the supplier's offer is accepted, variable manufacturing overheads will be reduced by \$0.2 per unit, direct labour cost will be reduced by 10% and direct martial cost will be reduced by \$4.5 per unit.

**REQUIRED:**

- (d) Explain, with supporting calculations, whether Anson Company should continue to manufacture the component or purchase it from the local supplier. (3 marks)

(Total: 14 marks)

**SECTION C** (20 marks)

Answer **ONE** question in this section.

8. Gary Company Limited has prepared the following statement of financial position as at 31 December 2015, the end of its first year of operation:

|   |                  |
|---|------------------|
|   | \$               |
| Office equipment  | 840 000          |
| Less: Accumulated depreciation – office equipment, 31 December 2015 | (210 000)        |
| Delivery vans   | 480 000          |
| Less: Accumulated depreciation – delivery vans, 31 December 2015    | (10 000)         |
| Inventory   | 645 000          |
| Trade receivables [note (iv)]                                       | 490 000          |
| Cash at bank  | 154 400          |
|   | <u>2 389 400</u> |
| <br>  |                  |
| Ordinary share capital  | 1 000 000        |
| Retained profits  | 255 000          |
| Long-term bank loan   | 200 000          |
| Short-term loan   | 480 000          |
| Trade payables  | 454 400          |
|   | <u>2 389 400</u> |

Additional information:

- (i) A short-term loan of \$456 000 was obtained to purchase a delivery van costing the same amount on 1 December 2015. The loan and its interest, totalling \$480 000 have to be repaid on 1 May 2016. This total amount was mistakenly debited to the delivery vans account and credited to the short-term loan account. It is the company's policy to depreciate all non-current assets evenly over four years on a monthly basis.
- (ii) On 31 December 2015, it was discovered that some goods costing \$32 250 had been damaged and could only be sold for \$22 200 after having them repaired for \$2600 in January 2016. No adjustment had been made in the closing inventory for the above.
- (iii) A purchase order from a customer for goods at invoice price of \$15 000, with a mark-up of 25%, was received on 30 December 2015. The goods would be delivered to the customer on 15 January 2016. These goods were not included in the closing inventory as the order had been recorded as credit sales on 30 December 2015.
- (iv) Analysis of the trade receivables is shown as follows:

|  |                |
|--|----------------|
|  | \$             |
| Amount due from customers [including the sales of goods in note (iii)]       | 503 000        |
| Deposits received from customers   | (3 000)        |
|  | 500 000        |
| Less: 2% allowance for doubtful debts provided according to company's policy | (10 000)       |
|  | <u>490 000</u> |

- (v) The bank reconciliation statement as at 31 December 2015 showed that there were three unrepresented cheques totalling \$23 400 on that date. After further review, the bookkeeper discovered that one of the unrepresented cheques for \$11 800 was issued to a supplier on 5 May 2015. It is the practice of the bank not to honour cheques outstanding for more than six months.

**REQUIRED:**

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (9 marks)  
 (b) Prepare for Gary Company Limited the statement of financial position as at 31 December 2015. (9 marks)  
 (c) Explain how the acid test ratio at 31 December 2015 is affected if Gary Company Limited decides to repay part of its long-term bank loan earlier, on 1 June 2016. (2 marks)

(Total: 20 marks)

9. On 1 January 2015, Mr Hong and Mr Kong formed a partnership, HK Company, by investing cash of \$650 000 each. The company purchases and sells computers and printers on credit.

On 31 December 2015, a summary of receipts and payments for 2015 was prepared based on the bank statements as follows:

| <u>Receipts</u>   | \$      | \$                    |
|---|---------|-----------------------|
| Contributions from partners   |         | 1 300 000             |
| Collections from customers' repayment of accounts                         |         | 2 104 000             |
| Deposits received from customer for goods to be delivered in January 2016 |         | 22 400                |
| 4% bank loan [note (vii)]   |         | 300 000               |
|   |         | <u>3 726 400</u>      |
| <br>  |         |                       |
| <u>Payments</u>   |         |                       |
| Office equipment purchased on 1 January 2015                              | 76 000  |                       |
| Office rent (for 13 months) [note (iii)]                                  | 792 300 |                       |
| Salaries for employees [note (iv)]  | 700 900 |                       |
| Payments to suppliers   | 950 250 |                       |
| Withdrawals of partners   | 334 800 | 2 854 250             |
|   |         | <u><u>872 150</u></u> |

Additional information:

- (i) As at 31 December 2015, the amount due from customers and the amount due to suppliers were \$166 240 and \$142 370 respectively.
- (ii) The bank reconciliation statement as at 31 December 2015 showed that unpresented cheques for 2015 purchases and uncredited deposits for 2015 sales were \$14 800 and \$21 520 respectively.
- (iii) The monthly office rent increased by \$5800 as from 1 January 2016. The rent for January 2016 was paid in December 2015.
- (iv) Salaries of employees for December 2015 amounting to \$44 750 were to be paid on 3 January 2016.
- (v) A physical inventory count on 31 December 2015 showed that inventory included 45 computers costing \$8000 each and 25 printers costing \$720 each.

On the same day, right after the physical inventory count, a fire broke out in the warehouse and inventory costing \$4320 was destroyed; the insurance company agreed to compensate 80% of the loss. The compensation was to be received by the company on 30 January 2016.

- (vi) Office equipment is to be depreciated at a rate of 40% per annum using the reducing balance method. Its residual value was estimated to be \$6000.
- (vii) The bank loan was acquired on 1 September 2015 and is to be repaid on 31 October 2016.

**REQUIRED:**

- (a) Prepare for HK Company,
    - (i) An income statement for the year ended 31 December 2015; and (10 marks)
    - (ii) A statement showing the calculation of the amount of working capital as at 31 December 2015. (6 marks)
  - (b) Briefly comment on the working capital situation of HK Company as at 31 December 2015. (2 marks)
  - (c) Calculate the total assets turnover (to two decimal places) of HK Company for 2015. (2 marks)
- (Total: 20 marks)

**END OF PAPER**