1991 Q.6 Capital & Revenue Expenditure

(b) State which class of expenditure (revenue/capital) each of the following items belongs to:

		$
(i)	Repairs to existing machines	10,000
(ii)	Purchase of a high capacity computer-aided controlling unit	200,000
(iii)	Wages for installing the controlling unit at (ii)	20,000
(iv)	Training courses for staff in operating a new system which has been installed recently	150,000
(v)	Cost of electricity and power for production	130,000
(vi)	Extension of the plant for re-structuring the production lines	150,000
(vii)	Maintenance expenses	40,000
(viii)	Rent and rates	84,000

(4 marks)

1992 Q.4

On 1 February 1989, Longarm Co. bought two personal computers costing $16,000 each to be used by the Marketing and Personnel managers. On the same day, an electronic typewriter costing $6,000 was also purchased for the director's personal secretary. The computers were to be depreciated at 20% per annum on a reducing balance basis. The electronic typewriter, estimated to have a scrap value of $800 and a useful life of 4 years, was to be depreciated on a straight-line basis. On 6 March 1991, the Marketing Manager's computer broke down. The company sold the computer for $9,000 after spending $3,000 on repairs. A new one was purchased at a cost of $14,000.

The accounting policy of the company was to charge a full year's depreciation in the year of purchase and no depreciation in the year of disposal.

Required:

Show the following for each of the years ended 31 December 1989, 1990 and 1991:

(a) the office equipment account;

(b) the provision for depreciation account - office equipment; and

(c) the disposal account - office equipment. (10 marks)

1992S Q.6

An extract from Large Ltd.'s balance sheet as at 31 December 1990 showed the following:

	$
Lorries at cost	
- acquired in 1984	450,000
- acquired in 1989	400,000
	850,000
Less: provision for depreciation	610,000
	240,000

It is the company's policy to depreciate its lorries at 20% per annum on cost. A full year's depreciation is charged in the year of acquisition but none in the year of disposal.

During the year ended 31 December 1991, the following transactions took place:

1 March	a lorry was purchased at a cost of $80,000.
1 June	a lorry acquired in 1984 for $60,000 was sold for $10,000.
1 August	a lorry acquired in 1989 for $40,000 was sold for $20,000.

Required:

Write up the following accounts for the year ended 31 December 1991:

(a) lorries account;

(b) provision for depreciation account - lorries; and

(c) disposal account - lorries. (10 marks)

1994 Q.3

The Pacific Trading Company has allowed for depreciation of its motor vehicles on the straight line basis for the past 3 years, assuming no residual value. On 31 March 1993, the balances extracted from the books were:

	$
Motor vehicles	230,000
Accumulated depreciation	103,500

Apart from the purchase made on 1 April 1990, no motor vehicles have been purchased or disposed of.

On 1 February 1994, one of the motor vehicles costing $57,500 was sold at a value of $36,000.

Required:

(a) Prepare in the books of the Pacific Trading Company the disposal account to record the above transaction. (4 marks)

(b) Calculate for each of the three years ending 31 March 1991, 1992 and 1993, the depreciation charge and the effect on profits, if depreciation had been provided at 25% by the reducing balance method, instead of the straight line basis. (6 marks)

(Calculations to the nearest dollar.)

1996 Q.2

Barker Limited, a manufacturing company, purchased a moulding machine from Sakura Company of Japan, the invoice price being $52,500. The machine was received on 16 December 1992 after the purchase price plusimport duty of $5,000 and landing charges of $2,000 had been paid. Installation was completed by 1 January 1993 at a further cost of $2,800.

The company estimated that the machine would have a useful life of 10 years and a scrap value of $14,300. The financial period ends on 30 September each year and depreciation is to be charged on a straight-line basis. The performance of the machine was not satisfactory and it was sold on 30 April 1996 for $41,625.

Required:

Prepare the following accounts to record the above:

(a) moulding machine; (2 marks)

(b) provision for depreciation - moulding machine; and (5 marks)

(c) disposal of moulding machine. (3 marks)

2002 Q.4

(A) State any two causes of depreciation. (3 marks)

(B) On 1 January 1998, Johnny Manufacturing Company purchased a new machine for $262,500 and paid freight charges of $7,500, installation cost of $15,000 and annual maintenance fee of $1,650.

The company estimated that the machine would have a useful life of 8 years and a scrap value of $21,384. The financial year of the company ends on 31 December.

Required:

(a) Calculate the cost of the machine to be capitalised by Johnny Manufacturing Company. (2 marks)

(b) Calculate the annual depreciation on the machine for the years 1998,1999 and 2000 if the company adopted the reducing balance method and a depreciation rate of 30% per annum. (3 marks)

(c) Suppose the company decided to use the straight-line method of depreciation

(i) Calculate the annual depreciation on the machine. (2 marks)

(ii) Prepare the necessary journal entries to record the disposal of the machine if it is sold for $155,000 on 31 March 2002. (Narrations are not required.) (4 marks)

2004 Q.3

(A) Classify each of the following costs related to the motor vehicles of Godwin Transportation Company as capital expenditure or revenue expenditure (assume all amounts are material):
- (a) Installation of anti–theft systems
- (b) Replacement of worn out tyres
- (c) Annual premium on motor insurance policies
- (d) Freight and insurance upon acquisition of vehicles
- (e) Painting of company logo on newly purchased vehicles.

(5 marks)

(B) On 1 July 2001, Godwin Transportation Company purchased a motor van for $360,000. The company estimated that the motor van would have a useful life of 5 years and a scrap value of $60,000. The financial year of the company ends on 31 March.

On 1 February 2004, the motor van was sold for $165,000 and the company received a partial payment of $120,000. The remaining balance was to be settled by the buyer on 1 April 2004.

You are required to:

(a) Calculate the annual depreciation on the motor van for the years ended 31 March 2003 and 2004, if the company adopted the straight line method of depreciation. (5 marks)

(b) Suppose the company decided to use the reducing balance method of depreciation and a depreciation rate of 25% per annum:

(i) Calculate the annual depreciation on the motor van for the years ended 31 March 2002, 2003 and 2004.

(ii) Prepare the necessary journal entries to record the disposal of the motor van on 1 February 2004. (Narrations are not required.)

(4 marks)

(Calculations to the nearest dollar.)

2006 Q.2

(A) State any two causes of depreciation fixed assets. (4 marks)

(B) Valor Company acquired a machine on 1 January 2002. The machine has an estimated useful life of 5 years. The depreciation charge for the first three years was calculated for this machine using two different depreciation methods as follows:

Year	Straight–line method (5 years)	Reducing–balance method (50% per annum)
2002	$12,400	$32,000
2003	$12,400	$16,000
2004	$12,400	$8,000

You are required to:

(a) State three causes of depreciation. (3 marks)

(b) Calculate the cost of the machine and its estimated residual value. (3 marks)

(c) Prepare journal entries to record the disposal of the machine based on the straight-line method, assuming that the machine was sold on 30 September 2005 for $36,000 on credit.
(Narrations are not required) (4 marks)

Depreciation

2008-Q2B

Mr. Chan started his trading business on 1 January 2007. On that date, the company bought a computer for office use, costing $12 000. The computer was expected to be used for 3 years before it would be replaced by a more advanced model. As at 31 December 2007, Mr. Chan decided that the computer be carried at its original cost of $12 000 on the balance sheet, without providing for depreciation.

REQUIRED

State the accounting principle or concept that has been violated and provide an explanation.

(4 marks)

2009-Q1

The financial year for Victor Company ends on 31 December each year. The following fixed assets schedule was prepared on 31 December 2008:

Fixed Asset	Acquisition Date	Cost	Estimated Salvage Value	Depreciation Method	Estimated Useful Life/ Annual Depreciation Rate	Depreciation Expense	
						2007	2008
		$	$			$	$
Furniture A	1 Jan 2006	100 000	(1)	Straight-line	4 years	22 000	(2)
Office equipment X	1 Mar 2007	200 000	33 614	Reducing-balance	30%	(3)	(4)
Furniture B	15 July 2007	(5)	5 000	Straight-line	5 years	(6)	8 000
Office equipment Y	20 Sept 2008	280 000	-	Reducing-balance	(7)	-	56 000
Furniture C	1 Oct 2008	76 000	4 000	Straight-line	10 years	-	(8)

Additional information:

(i) It is the company's policy to charge a fall year's depreciation on fixed assets purchased in the first half of the financial year. For fixed assets purchased in the second half of the financial year, a half year's depreciation is charged.

(ii) On 1 November 2008, the company spent $5000 to extend the useful life of Furniture C and $600 for the maintenance of this asset for the two years ended 31 December 2009. These amounts had been included in the cost of Furniture C at 31 December 2008.

REQUIRED:

Compute the correct amount/depreciation rate for items (1) to (8) in the schedule above.

(14 marks)

CE2008Q2(B)

The financial year of Wingding Company ends on 31 December. In 2007, the company bought a machine at a cost of $58 000 and paid a deposit of $8000 on 1 April 2007. The machine was delivered and installed on 1 July 2007. An accident occurred on the same day and repair charges amounting to $2000 were paid. The company settled the balance of the machine price on 1 October 2007.

The machine was estimated to have a useful life of 4 years and a scrap value of $4000. It is the company's policy to depreciate its fixed assets on a straight line basis.

The machine had a major breakdown in early 2008 and was disposed of on 30 April 2008 for $25 000.

REQUIRED:

Prepare the necessary journal entries to record the above. (Note: Narrations are not required).

(10 marks)

CE2007Q2(A)

Nelson Company traded-in a used machine for an advanced model in April 2007. The old machine had a net book value of $12 000 and a trade-in value of $10 000. Nelson Company paid the following expenditures for the new machine during April 2007:

(i) Cash of $55 000 for the exchange.

(ii) $5000 for a training course for workers on the operation of the new machine.

(iii) $4000 for the delivery of the new machine.

(iv) $1000 for insurance during transportation of the new machine.

(v) $8000 for a specialty made steel case to house the new machine.

(vi) $2000 for the installation of the new machine.

(vii) Repair cost of $3800 for accidental damage during installation.

(viii) $1200 for the lubricants to be used with the machine during its first year of operation.

You are required to:

Prepare for Nelson Company a statement to calculate the cost of the new machine.

(6 marks)

CE2008Q2(B)

The financial year of Wingding Company ends on 31 December. In 2007, the company bought a machine at a cost of $58 000 and paid a deposit of $8000 on 1 April 2007. The machine was delivered and installed on 1 July 2007. An accident occurred on the same day and repair charges amounting to $2000 were paid. The company settled the balance of the machine price on 1 October 2007.

The machine was estimated to have a useful life of 4 years and a scrap value of $4000. It is the company's policy to depreciate its fixed assets on a straight line basis.

The machine had a major breakdown in early 2008 and was disposed of on 30 April 2008 for $25 000.

REQURIED:

Prepare the necessary journal entries to record the above. (Note: Narrations are not required).

(10 marks)

1. SP.Q1

A company has incurred the following expenditures on a new machine purchased for business use:

	$
List price (allowance of 20% trade discount)	800 000
Legal fees related to the purchase	5 200
Machine installation and adaptation	7 300
Maintenance fee	9 900
Testing	6 500
Initial training for operators	3 000

The manager expects the efficiency of the machine to decline sharply over its useful life. He wants to adopt a depreciation method that will best meet the nature of the machine.

REQUIRED:

(a) Calculate the cost of the machine to be capitalised. (4 marks)
(b)(i) Identify a depreciation method that is in line with the manager's view. (1 mark)
(ii) Explain one advantage of the depreciation method you identified in (i). (2 marks)

2. 2012.Q2

The non-current assets of Moody Company as at 31 December 2010 were as follows:

	Cost $	Accumulated Depreciation $
Machinery (all purchased in 2007)	3 600 000	3 455 000
Lorries (all purchased in 2008)	1 850 000	1 200 000

The following were transactions relating to the non-current assets of the company during 2011:

(i) On 1 March 2011, a piece of machinery was bought at a price of $2 400 000. On the same date, a component costing $60 000 was installed into the machinery to increase its productivity over the coming four years.
(ii) On 1 January 2011, a lorry was bought at a price of $1 900 000. The price included an insurance premium of $36 000 covering the year ended 31 December 2011.

It is the company's policy to depreciate machinery at a rate of 25% per annum on cost, and lorries at a rate of 20% per annum using the reducing balance method.

REQUIRED:

(a) For Moody Company,
(1) Calculate the depreciation expenses of the machinery for the year ended 31 December 2011; and (3 marks)
(2) Prepare the accumulated depreciation account of lorries for the year ended 31 December 2011. (3 marks)
(b) Different methods are used to depreciate the non-current assets of Moody Company. Explain whether such a difference in accounting treatments violates the consistency principle. (2 marks)

3. 2013.Q2

Mr Chan commenced his retail business on 1 January 2011 and acquired five pieces of equipment costing $135 000 each on that date. No other addition and disposal were made during 2011. Information relating to the equipment for the year ended 31 December 2012 is as follows:

		$
Payments for new equipment	- Purchase cost	280 000
	- Testing fees	12 500
	- Repairs and maintenance fees for 2012	42 600
Proceeds from sale of two pieces of equipment purchased in 2011		104 500

Depreciation on equipment is to be provided at a rate of 20% per annum using the reducing balance method. Full year depreciation is calculated in the year of purchase but none in the year of sale.

REQUIRED:

For the retail business of Mr Chan, prepare the following accounts for the year ended 31 December 2012:

(a) Equipment account (3 marks)
(b) Accumulated depreciation account – Equipment (4 marks)

Mr Chan decides to apply different depreciation methods to calculate the depreciation expense on equipment in different years in order to show continuously stable operating results.

REQUIRED:

(c) State and explain the accounting principle or concept violated in the above situation. (3 marks)

4. 2014.Q2

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)

5. 2015.Q8(a)
(ii) On 1 October 2014, Nancy Company Limited traded in a piece of used office equipment with a cost of $100 000 for a new model. The trade-in value was agreed at $22 000. The old office equipment had an accumulated depreciation of $52 500 on 1 January 2014. No accounting record had been made for the above arrangement. In respect of this trade-in, the company was required to pay $140 000 for the new office equipment, $5000 for its delivery, $1000 for the insurance during its delivery and $3000 to train staff to operate the new office equipment. All these expenditures had been treated as administrative expense for 2014.

(a) Prepare a statement to calculate the cost of the new equipment in (ii) above. (3 marks)

**Extended question: Students may prepare the required journal entries to record / correct the above.

6. 2016.Q6
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. 2017.Q3(a)
Star Manufacturing Company acquired a production machine for $432 000 on 1 January 2013. The expected total production hours of the machine are 8000 hours during its useful life of four years. No residual value is expected and annual depreciation is to be provided based on the usage of the machine.

The actual annual hours used for production were as follows:

Year	Actual production hours
2013	1 800
2014	2 300
2015	2 400
2016	2 500

REQUIRED:
(a) Calculate the annual depreciation expenses of the machine for 2015 and 2016. (2 marks)

8. 2018.Q7 **(modified, the original question was not testing journal entries)**

The following are the balances extracted from the books of KK Company Limited as at 1 January 2017:

	$
Equipment	2 020 000
Accumulated depreciation, equipment	1 060 000

On 1 May 2017, a piece of old equipment was traded in for a new model which cost $62 000, at a trade-in value of $21 000. The company settled the balance of the new equipment by cheque on the same date. The old equipment was purchased on 1 March 2015 at a cost of $50 000.

Besides, another piece of equipment was purchased for $250 000 in 2012 was still in use during 2017.

It is the company's policy to charge depreciation on equipment at a rate of 20% per annum on a straight-line basis. A full year's depreciation on equipment is to be charged in the year of purchase but none in the year of disposal.

Depreciation expenses and gains/losses on disposal are classified as administrative expenses.

REQUIRED:
Prepare the journal entries to record the trade-in transaction and the depreciation expenses for the year ended 31 December 2017. Narrations are not required.

9. 2018.Q8(A) **(modified, the original question involves correction of errors)**

The financial year of Bright Company ends on 31 December 2017. A motor vehicle, which was purchased for $150 000 in 2013, was damaged in a traffic accident and then sold for $50 000 in December 2017.

It is the company's policy to charge depreciation on motor vehicles at a rate of 20% per annum on a reducing-balance basis. A full year's depreciation on motor vehicles is to be charged in the year of purchase but none in the year of disposal.

REQUIRED:

Prepare the journal entries to record the above. Ignore the depreciation for the remaining motor vehicles. Narrations are not required.

Additional practice: You may use the above information to prepare the **disposal account – motor vehicles**.

10. 2020.Q2

Information relates to the new equipment of Kam Kee Manufacturing Company is as follows:

	$
List price (before a trade discount of 20%)	500 000
Installation cost	5 000
Repair cost for accidental damage during installation	2 800
Testing fee after installation	2 000
Training fee for equipment operators	4 000

REQUIRED:

(a) Prepare a statement to calculate the cost to be capitalised for the equipment. (2 marks)

On 1 January 2018, the company acquired a machine with a cost of $432 000 and a residual value of $5 500. The machine was expected to produce 10 000 units of goods in total and annual depreciation is to be provided based on the production quantity of the machine.

The actual annual production quantity of the machine is as follows:

Year	Production quantity (units)
2018	2 700
2019	900

On 31 May 2019, the machine was totally destroyed in an accident. On 15 December 2019, the insurance company agreed to pay 70% of the net book value of the machine on the date of the accident as compensation in March 2020.

REQUIRED:

(b) Prepare the following accounts for the year ended 31 December 2019:

(i) Accumulated depreciation account - machine

(ii) Disposal account - machine

(4 marks)

(Total: 6 marks)

11. 2021.Q7 **(modified, the original question involves preparation of financial statements)**

The trial balance of Holly Limited as at 31 December 2020 is shown below:

	$	$
Office equipment	1 970 000	
Accumulated depreciation - office equipment, 1 January 2020		962 000
Motor vans	980 000	
Accumulated depreciation - motor vans, 1 January 2020		528 000

Depreciation on office equipment and motor vans is to be charged as follows:

- Office equipment: 20% per annum using the reducing balance method. Scrap value was estimated at $125 000.
- Motor vans: 25% per annum using the straight-line method on a monthly basis.

On 1 September 2020, a motor van had been totally scrapped in a car accident. However, no entries were made in the books. This motor van was purchased on 1 July 2017 for $180 000.

A motor van which was purchased for $160 000 on 1 April 2016 was still in use at the end of 2020.

REQUIRED:

(a) Prepare the following ledger accounts for the year ended 31 December 2020:

(i) Accumulated depreciation - motor vans

(ii) Disposal - motor vans

(b) Compute the depreciation expense for office equipment for the year ended 31 December 2020.

(c) [Extra practice]

Prepare the necessary journal entries for requirements (a) and (b). Narrations are not required.

2022

(B) Beta Company purchased a motor van on 1 May 2019 for $180 000. The residual value of the motor van was estimated at $12 000. Depreciation of 20% per annum had been provided on the motor van using the reducing-balance method. On 1 August 2021, the company sold the motor van for $85 000.

REQUIRED:

Prepare the accumulated depreciation account for the motor van for the years ended 31 December 2020 and 31 December 2021. (3 marks)

(Total: 8 marks)

CE Questions

1. 1991.Q6(b)

(b) Capital expenditures (ii) - (iv), (vi) \ ½ each 4

Revenue expenditures (i), (v), (vii), (viii) /

2. 1992.Q4

(a)

Office Equipment

		$			$
1989			1989		
Feb 1	Bank / Cash ($16,000×2 + $6,000)	38,000	Dec 31	Bal c/d	38,000
1990			1990		
Jan 1	Bal b/d	38,000	Dec 31	Bal c/d	38,000
1991			1991		
Jan 1	Bal b/d	38,000	Mar 6	Disposal-Office equipment	16,000
Mar 6	Cash / Bank	14,000	Dec 31	Bal c/d	36,000
		52,000			52,000

(b) Provision for Depreciation - Office Equipment

		$			$
1989			1989		
Dec 31	Bal c/d	7,700	Dec 31	Profit and loss	7,700
1990			1990		
Dec 31	Bal c/d	14,120	Jan 1	Bal b/d	7,700
			Dec 31	Profit and loss	6,420
		14,120			14,120
1991			1991		
Mar 6	Disposal-Office equipment	5,760	Jan 1	Bal b/d	14,120
Dec 31	Bal c/d	14,508	Dec 31	Profit and loss	6,148
		20,268			20,268

(c) Disposal - Office Equipment

		$			$
1991			1991		
Mar 6	Office equipment	16,000	Mar 6	Provision for depreciation	5,760
6	Repairs	3,000		Cash - Sales proceeds	9,000
			Dec 31	Profit and loss	4,240
		19,000			19,000

Workings:

1. Depreciation Expense on Office Equipment:

	$
At Dec 31, 1989:	
Computers : $32,000 × 20%	6,400
Typewriters : $(6,000 – 800) ÷ 4	1,300
	7,700
At Dec 31, 1990:	$
Computers : $(32,000 – 6,400) × 20%	5,120
Typewriters :	1,300
	6,420
At Dec 31, 1991:	$
Computers : $(16,000 – 3,200 – 2,560) × 20% + ($14,000 × 20%)	4,848
Typewriters :	1,300
	6,148

2. Accumulated depreciation for the disposed computers as at Mar 6, 91:

	$
1989 : $16,000 × 20%	3,200
1990 : $(16,000 – 3,200) × 20%	2,560
Accumulated depreciation	5,760

3. 1992S.Q6

(a)

Large Ltd.

Lorries

1991		$	1991		$
Jan 1	Bal b/d	850,000	Jun 1	Disposal - lorries	60,000
Mar 1	Bank	80,000	Aug 1	Disposal - lorries	40,000
			Dec 31	Bal b/d	830,000
		930,000			930,000

(b) Provision for Depreciation - lorries

1991		$	1991		$
Jun 1	Disposal - lorries	60,000	Jan 1	Bal b/d	610,000
Aug 1	Disposal - lorries		Dec 31	Profit and loss	
	(40,000×20%×2)	16,000		*(400,000 – 40,000 +	
Dec 31	Bal c/d	622,000		80,000) × 20%	88,000
		698,000			698,000

Note: * Since lorries acquired in 1984 have been fully depreciated, no depreciation is charged on those lorries in 1991.

(c) Disposal - Lorries

1991		$	1991		$
Jun 1	Lorries	60,000	Jun 1	Provision for depreciation	
Aug 1	Lorries	40,000		- lorries	60,000
Dec 31	Profit and loss	6,000		Bank	10,000
			Aug 1	Provision for depreciation	
				- lorries	16,000
				Bank	20,000
		106,000			106,000

4. 1994.Q3

(a)

Disposal of Motor Vehicles

1994		$	1994		$
Feb 1	Motor vehicles (at cost)	57,500	Feb 1	Provision for depreciation (W1)	33,063
	Profit and loss:			(Accumulated depreciation)	
	Profit on disposal	11,563		Bank (resale price)	36,000
		69,063			69,063

Workings:

(W1) Annual depreciation = 103,500 ÷ 3 = 34,500

$$\text{Annual depreciation rate} = \frac{\text{Annual Depreciation}}{\text{Assets at cost} - \text{Residual Value}} \times 100\%$$

$$= \frac{34500}{230,000-0} \times 100\%$$

$= 15\%$ p.a. (per annum)

∵ The motor vehicle disposed has been used for $3\frac{10}{12}$ yrs.

(From 1 Apr 1990 to 1 Feb 1994)

∴ Accumulated depreciation $= 57,500 \times 15\% \times 3\frac{10}{12}$

$= 33062.5$

$= 33063$ (corr. to the nearest dollar)

(W2) Depreciation charge under reducing balance method

= (Assets at cost – Accumulated Depreciation) × Depreciation rate

(a) $(230,000-0) \times 25\% = 57,500$

(b) $(230,000-57,500) \times 25\% = 43,125$

(c) $(230,000-57,500-43,125) \times 25\% = 32,343.75$

$= 32344$ (corr. to the nearest dollar)

(b)

Pacific Trading Company
Statement of Calculating the Depreciation Charge and the Effect on Profits between Reducing Balance and Straight-Line Methods for the year ended 31 March

	$
1991:	
Depreciation charge under Straight-Line (230,000 × 15%)	34,500
Depreciation charge under Reducing-Balance (W2 (a))	57,500
Effect on profit (Decrease)	(23,000)
1992:	
Depreciation charge under Straight-Line (230,000 × 15%)	34,500
Depreciation charge under Reducing-Balance (W2 (b))	43,125
Effect on profit (Decrease)	(8,625)
1993:	
Depreciation charge under Straight-Line (230,000 × 15%)	34,500
Depreciation charge under Reducing-Balance (W2 (c))	32,344
Effect on profit (Increase)	2,156

5. 1996.Q2

(a)

Moulding Machine

			$			$	
½	16/12/92	Cash	52 500	20/4/96	Disposal of moulding machine	62 300	
½	Bank:	Import duty	5 000				
½		Landing charges	2 000				
½	1/1/93 Bank:	Installation cost	2 800				
			62 300			62 300	(2)

(b)

Provision for depreciation - moulding machine

		$			$	
30/4/96	Disposal of machine	16 000	30/9/93	Profit and loss (W1)	3 600	1½
			30/9/94	Profit and loss (W2)	4 800	1
			30/9/95	Profit and loss (W3)	4 800	1
			30/4/96	Profit and loss (W4)	2 800	1½
		16 000			16 000	(5)

(c)

Disposal of moulding machine

			$			$	
½	30/4/96	Moulding machine	62 300	30/4/96	Provision for depreciation - moulding machine	16 000	½
					Sales proceeds	41 625	1
					Loss on disposal	4 675	1
			62 300			62 300	(3)

Workings : Provision for depreciation

(1) (\$62 300 (½) − \$14 300) × 10% (½) × 9/12 (½) = \$3600

(2) (\$62 300 (½) − \$14 300) × 10% (½) = \$4800

(3) (\$62 300 (½) − \$14 300) × 10% (½) = \$4800

(4) (\$62 300 (½) − \$14 300) × 10% (½) × 7/12 (½) = \$2800

6. 2002.Q4

(A)
- Physical deterioration – wear and tear
- Obsolescence – becoming obsolete or out-of-date
- Inadequacy – inadequate or inefficient
- Decrease in value due to the passage of time
- Depletion arising from removal of natural resource from the ground

(Any two of the above, 1.5 marks each, max. 3 marks

(B)

(a) **Cost of machine to be capitalised**

	$	
Purchase cost	262 500	½
Freight charges	7 500	½
Installation cost	15 000	½
	285 000	½
		(2)

(b) **Reducing balance method**

	Cost/Net book value	Depreciation rate	Annual depreciation	Accumulated depreciation	
	$		$	$	
1998	285 000	30%	**85 500**	85 500	1
1999	199 500	30%	**59 850**	145 350	1
2000	139 650	30%	**41 895**	187 245	1
					(3)

(c)(i) **Straight line method**

	$
Cost of machine	285 000
Less: Estimated scrap value	21 384
	263 616

Annual depreciation = \$263 616÷8 = \$32 952

(2)

(ii) Journal

		Dr	Cr	
		$	$	
2002				
Mar 31	Cash	155 000		1
	Disposal of machinery		155 000	
	Provision for depreciation: machinery (32 952 × 4 3/12)	140 046		1
	Disposal of machinery		140 046	
	Disposal of machinery	285 000		
	Machinery		285 000	1
	Disposal of machinery	10 046		
	Profit and loss: profit on disposal of machinery		10 046	1

Alternative answer:

2002				
Mar 31	Cash	155 000		1
	Provision for depreciation: machinery	140 046		1
	Machinery		285 000	1
	Profit and loss		10 046	1

7. 2004.Q3

(A)
(a) capital expenditure
(b) revenue expenditure
(c) revenue expenditure
(d) capital expenditure
(e) capital expenditure

(5)

(B) (a) **Straight line method**

	$
Cost of motor van	360 000
Less: Estimated scrap value	60 000
	300 000

2003 $300 000 × 1/5 = $60 000
2004 $300 000 × 1/5 × 10/12 = $50 000

(2)

(b)(i) **Reducing balance method**

Year	Cost / Net book value	Depreciation rate	Annual depreciation	
	$		$	
2002	360 000	25% (9/12)	67 500	1
2003	292 500	25%	73 125	1
2004	219 375	25% (10/12)	45 703	1
				(3)

(ii) Journal

		Dr	Cr	
		$	$	
Feb 1	Cash	120 000		½
	Debtor	45 000		1
	Disposal of motor van		165 000	
	Provision for depreciation - motor vans ($67 500 + 73 125 + 45 703)	186 328		1
	Disposal of motor van		186 328	
	Disposal of motor van	360 000		
	Motor vans		360 000	½
	Profit and loss - loss on disposal of motor van	8 672		1
	Disposal of motor van		8 672	
				(4)

8. 2006.Q2

(A) Major characteristics: Max. 4

- They are long-term in nature and can benefit the business for more than one year 2
- They are material in amount 1
- They have physical substance 1
- They are acquired for use in the operations of the business and are not for resale 1

(4)

(B) (a) Causes:

- physical wear and tear
- obsolescence
- inadequacy
- passage of time
- depletion

(1 mark for each appropriate cause, max. 3 marks) (3)

(b) Cost of the machine:
$32 000 ÷ 50% = $64 000 1

Estimated residual value of the machine:
$64 000 – $12 400 × 5 = $2000 2

(3)

(c) Journal

	Dr. $	Cr. $	
Debtors	36 000		1
Provision for depreciation – machinery ($12 400×3 + $12 400×9/12)	46 500		1½
Machinery		64 000	½
Profit on disposal of machinery		18 500	1
			(4)

9. 2008.Q2(A)

Matching concept 1

- The matching concept links revenue with its relevant expenses or costs. max. 3
- The use of the office equipment contributes to the generation of revenue of the business.
- The cost of the office equipment should therefore be allocated over its useful life on a systematic basis, e.g. straight line basis.
- The cost of using the office equipment during the year (the depreciation) should be recorded as an expense (in the profit and loss account) for the year ended 31 December 2007.

(4)

BAFS – Depreciation and Disposal Answers

10. 2009.Q1

(1)	$12 000	$100 000 – $22 000 × 4	2
(2)	$22 000		1½
(3)	$60 000	$200 000 × 30%	1½
(4)	$42 000	($200 000 – $60 000) × 30%	1½
(5)	$45 000	$8 000 × 5 + $5 000	2
(6)	$4 000	($45 000 – $5 000) ÷ 5 × ½ or $8 000 × ½	1½
(7)	40%	($56 000 × 2) ÷ $280 000	2
(8)	$3 570	($76 000 – $600 – $4 000) ÷ 10 × ½	2

11. 2007.Q2(A)

Cost of the new machine	$	
Acquisition cost ($55 000 + $10 000)	65 000	1½
Delivery charges	4 000	½
Insurance	1 000	½
Steel case	8 000	½
Installation cost	2 000	½
	80 000	2½
		(6)

12. 2008.Q2(B)

(B)

Journal

			Debit	Credit	
2007			$	$	
Apr	1	Deposit - machine	8 000		½
		Bank		8 000	½
July	1	Machinery	58 000		½
		Creditor		50 000	½
		Deposit - machine		8 000	½
	1	Repair expenses	2 000		½
		Bank		2 000	½
Oct	1	Creditor	50 000		½
		Bank		50 000	½
Dec	31	Depreciation expense [($58 000 – $4000) ÷ 4 × 6/12]	6 750		1
		Accumulated depreciation - machinery		6 750	½
2008					
Apr	30	Depreciation expense [($58 000 – $4000) ÷ 4 × 4/12]	4 500		1
		Accumulated depreciation - machinery		4 500	½
	30	Accumulated depreciation - machinery	11 250		½
		Bank	25 000		½
		Profit and loss	21 750		1
		Machinery		58 000	½
					(10)

DSE Questions

1. SP.Q1

QUESTION 1

(a)

	$	
		1
Purchase cost (800 000 × 80%)	640 000	½
Legal fees related to the purchase	5 200	½
Machine installation and adaptation	7 300	½
Testing	6 500	1½
	659 000	
		(4)

(b)(i) Reducing balance method — 1

(ii) Advantage:
- Even allocation of total fixed asset usage costs (depreciation and maintenance) — 2
- Appropriate matching of cost with benefits derived

2. 2012.Q2

(a) (1) Depreciation expenses of machinery for the year ended 31 December 2011:

	$	
Depreciation on old machinery ($3 600 000 – $3 455 000)	145 000	1
Depreciation on new machinery ($2 400 000 + $60 000) × 25% × 10/12	512 500	1½
Total depreciation expenses of machinery	657 500	½
		(3)

(2) **Accumulated depreciation - Lorries**

	2011		$	2011		$	
½	Dec 31	Balance c/d	1 702 800	Jan 1	Balance b/d	1 200 000	½
				Dec 31	Profit and Loss (w1)	502 800	2
			1 702 800			1 702 800	
							(3)

(w1)

	$
Depreciation on existing lorries [($1 850 000 – $1 200 000) × 20%]	130 000
Depreciation on new lorries ($1 900 000 – $36 000) × 20%	372 800
Total depreciation expenses of lorries	502 800

(b) It does not violate the consistency concept — 1

Reasons: — (max) 1
- consumption pattern is different for different types of non-current assets
- the company is consistently applying the same depreciation method for the same type of non-current assets;

(1 mark for each relevant reason) — (2)

3. 2013.Q2

(a)

	2012	$	2012	$	
½	Balance b/d	675 000	Disposal of equipment	270 000	½
1½	Bank: Equipment purchased ($280 000 + $12 500)	292 500	Balance c/d	697 500	½
		967 500		967 500	

Equipment (3)

(b)

Accumulated depreciation – Equipment

	2012	$	2012	$	
1	Disposal of equipment ($270 000 × 0.2)	54 000	Balance b/d ($675 000 × 20%)	135 000	1
	Balance c/d	204 300	Depreciation expenses [($675 000–$270 000) +$292 500 – $81 000] × 20%	123 300	2
		258 300		258 300	

(4)

(c) Accounting principle/concept violated:
- consistency concept 1

Explanations: 2
- same accounting policy should be applied on like items across years
- a change in depreciation method is allowed when it will result in a more true and fair presentation of the firm's financial position
- to stabilise operating results over year is not a justifiable reason for the change in depreciation method

(1 mark for each relevant explanation, max. 2 marks) (3)

4. 2014.Q2

Mark

(a) Depreciation expense for the machine:

2011: ($240 000 – $4000) / 10 = $23 600 1

2012: ($240 000 – $4000) / 10 + $180 000 / 9 = $23 600 + $20 000 = $43 600
OR ($240 000 – $4000 – $23 600 + $180 000) / 9 = $43 600 1½

2013: ($240 000 – $4000) / 10 × 6/12 + $180 000 / 9 × 6/12 = $11 800 + $10 000 = $21 800
OR ($240 000 – $4000 – $23 600 + $180 000) / 9× 6/12 = $21 800 1½

(4)

(b)

Journal

		Dr	Cr	
2013		$	$	
Oct 15	Insurance compensation receivable	210 000		0.5
	Accumulated depreciation ($23 600 + $43 600 + $21 800)	89 000		1
	Loss on disposal	121 000		0.5
	Machinery ($240 000 + $180 000)		420 000	1
				(3)

5. 2015.Q8(a)

Statement showing the calculation of the cost of the new office equipment

	$	
Payment for cost	140 000	½
Trade-in value of the old office equipment	22 000	½
Delivery charge	5 000	½
Insurance fee on transportation	1 000	½
Total cost of the new office equipment	168 000	1
		(3)

6. 2016.Q6

Marks

(a)

Motor vehicles account

		$		$	
0.5	Balance b/d	1 200 000	Disposal of motor vehicles – March	120 000	0.5
			Disposal of motor vehicles – April ($28 000 × 8)	224 000	0.5
			Balance c/d	856 000	0.5
		1 200 000		1 200 000	

(2)

(b)

Accumulated depreciation account – motor vehicles

		$		$	
0.5	Disposal of motor vehicles – March ($15 000 + $1250 × 2)	17 500	Balance b/d	150 000	0.5
0.5	Disposal of motor vehicles – April ($28 000 + $28 000 ÷ 4)	35 000	Depreciation expense – 2015 (workings 1)	116 500	2
0.5	Balance c/d	214 000			
		266 500		266 500	

Workings 1: Depreciation expense for 2015: (4)

Workings 1: Depreciation expense for 2015: (4

	$
– For motor vehicle disposed in March ($120 000 x 0.125 x 2/12)	2 500
– For motor vehicle disposed in April ($28 000 x 3/12)	7 000
– For the remaining motor vehicles ($1 200 000 - $120 000 - $224 000)/8	107 000
	116 500

(c)

Disposal account - motor vehicles

		$		$	
0.5	Motor vehicles	120 000	Accumulated depreciation – March	17 500	0.5
0.5	Motor vehicles	224 000	Accumulated depreciation – April	35 000	0.5
			Cash – March (workings 2)	114 900	0.5
			Insurance receivable (workings 3)	151 200	1
			Loss on disposal	25 400	0.5
		344 000		344 000	

(4)

Workings 2: Cash received = Net book value + Gain on disposal = ($120 000 - $17 500) + $12 400 = $114 900

Workings 3: Insurance compensation = 80% of net book value as at 1 April 2015
= ($224 000 - $35 000) × 0.8 = $151 200

Journal

2016	Details	Dr	Cr	
January 1		$	$	
	Motor vehicles ($240 000 + $20 000)	260 000		1
	License fee	4 000		0.5
	Cash at bank		264 000	0.5
				(2)
				Total: 12 marks

7. 2017.Q3(a)

(a) 2015 Depreciation expense = $432 000 x 2400/8000 = $129 600 1
2016 Depreciation expense = $432 000 x (8 000 – 1 800 – 2 300 – 2400)/8000 = $81 000 1

8. 2018.Q7 (Modified)

Journal

Details	Dr	Cr
	$	$
Accumulated depreciation, Equipment ($50,000 x 20% x 2)	20,000	
Equipment (new) *(Trade-in value)*	21,000	
Administrative expenses *(loss on disposal)*	9,000	
Equipment		50,000
Equipment (new) ($62,000 - $21,000)	41,000	
Cash at bank		41,000
Administrative expenses *(Depreciation expenses)* (workings)	**356,400**	
Accumulated Depreciation, equipment		**356,400**

Working:

	$
Cost of equipment per trial balance	2,020,000
Cost of old equipment disposed	(50,000)
Cost of new equipment acquired	62,000
Cost of fully depreciated equipment purchased in 2012	250,000
Depreciable cost of equipment	1,782,000
Depreciation expenses for the year (20% of depreciable costs)	**356,400**

9. 2018.Q8 (Modified)

Journal

Details	Dr	Cr
	$	$
Accumulated depreciation: Motor Vehicles ($150,000 - $150,000 x 80%[4])	88,560	
Cash at bank	50,000	
Loss on disposal	11,440	
Motor vehicles		150,000

10. 2020.Q2

(a)

Kam Kee Manufacturing Company
Statement to calculate the cost of equipment

	$	
Purchase price ($500 000 x 80%)	400 000	0.5
Installation cost	5 000	0.5
Testing fee after installation	2 000	0.5
Cost of the equipment to be capitalized	407 000	0.5
		(2)

(b)

(i) Accumulated depreciation - machine

		$		$	
0.5	Disposal - machine	153 540	Balance b/d (W1)	115 155	0.5
			Depreciation expense (W2)	38 385	0.5
		153 540		153 540	

(ii) Disposal - machine

		$		$	
0.5	Machine	432 000	Accumulated depreciation - machine	153 540	0.5
			Insurance receivables (W3)	194 922	1
			Loss on disposal	83 538	0.5
		432 000		432 000	
					(4)

W1: Depreciation for 2018 = ($432 000 - $5 500) x 2 700/10 000 = $115 155

W2: Depreciation for 2019 = ($432 000 - $5 500) x 900/10 000 = $38 385

W3: Insurance compensation receivable = ($432 000 - 153 540) x 0.7 = $194 922

6 marks

11. 2021.Q7 [Modified]

(a)

(i)

Accumulated depreciation - motor vans

2020		$	2020		$
9/1	Disposal - machine (W2)	142 500	1/1	Balance b/d	528 000
			9/1	Depreciation expense (W1)	30 000
12/31	Balance c/f	585 500	12/31	Depreciation expense (W1)	170 000
		728 000			728 000

(ii)

Disposal - motor vans

2020		$	2020		$
9/1	Motor Vans	180 000	9/1	Accumulated depreciation - motor vans (W2)	142 500
				Loss on disposal	37 500
		180 000			180 000

Workings:

W1 - Depreciation expenses for the year:

	Cost of motor vans	Month of depreciation for this year	Depreciation expenses (Cost x 25% x month / 12)
Total	$980 000		
[1] Sold on 1 Sept 2020	$180 000	8	$30 000
[2] Purchased on 1 Apr 2016	$160 000	3	$10 000
[3] Remaining	$640 000	12	$160 000

Note for [2]:

25% depreciation rate => estimated useful life = 4 years = 48 months

Fully depreciated on 31 Mar 2020. No depreciation expense from 1 Apr 2020 onwards.

Period	Number of months
1 Apr 2016 - 31 Dec 2016	9
1 Jan 2017 - 31 Dec 2017	12
1 Jan 2018 - 31 Dec 2018	12
1 Jan 2019 - 31 Dec 2019	12
1 Jan 2020 - 31 Mar 2020	3

W2 - accumulated depreciation of the motor van sold

Date of purchase: 1 July 2017

Period	Number of months
1 Jul 2017 - 31 Dec 2017	6
1 Jan 2018 - 31 Dec 2018	12
1 Jan 2019 - 31 Dec 2019	12
1 Jan 2020 - 1 Sept 2020	8
Number of months used	**38**
Useful life - 4 years = 4 x 12 months	**48**

Hence, accumulated depreciation = (以下選其中一條算式)

Method	Logic	Formula
1	全年折舊 x 3 年 + 2 個月	= $180 000 x 25% x 3 + $180 00 0x 25% x 3 x 2/12
2	每個月折舊 x 38 個月	= $180 000 x 25% / 12 x 38
3	使用期限 48 個月， 已折舊部分 = 38 個月	= $180 000 x 38 / 48

(b) Depreciation expenses of office equipment

= $(1 970 000 - $962 000) x 20%

= $201 600

(c)

Journal

Date	Details	Dr	Cr
2020		$	$
Sep 1	Depreciation expenses - motor vans (W1)	30 000	
	Accumulated Depreciation - motor vans		30 000
	Accumulated depreciation - motor vans (W2)	142 500	
	Loss on disposal of motor vans	37 500	
	Motor vans		180 000
Dec 31	Depreciation expenses - motor vans (W1)	170 000	
	Accumulated Depreciation - motor vans		170 000
	Depreciation expenses - office equipment	201 600	
	Accumulated Depreciation - office equipment		201 600

1992 Q.3
Zolar Co. started its business trading in electronic products on 1 January 1989. During the first two years, the following bad debts were written off:

1989		$
Mar. 3	Wilson Co.	5,000
Apr. 7	A Tang	3,000
Aug. 15	E Ng	800
Oct. 11	Ramsan Co.	11,200

1990		$
Feb. 10	Sunny Electronics	110,000
Mar. 25	C Leung	4,000
Jun. 5	Novel shop	32,000
July 11	K Wong	1,200

The debtors account had the following year-end balances:

Year	$
1989	250,000
1990	670,000
1991	432,000

Provision for bad debts was made as follows:

Year	% on debtors
1989	5%
1990	8%
1991	10%

On 20 February 1991, a cheque for $11,200 from Ramsan Co. was received in full settlement of the account previously written off as a bad debt.

Required:

Prepare the following for the years ended 31 December 1989, 1990 and 1991:

(a) the bad debts account; (3 marks)

(b) the provision for bad debts account; and (5 marks)

(c) the account of Ramsan Co. (2 marks)

1997 Q.1
The opening provision for doubtful debts is $67,000 in the accounts of Nicam Limited. However, the accountant decides that the closing provision is to be $58,000.

Required:

(a) Give two reasons why a business might create a provision for doubtful debts. (4 marks)

(b) Give one reason why the accountant may wish to reduce this provision. (2 marks)

(c) How will the reduction in provision for doubtful debts be shown in the profit and loss account of Nicam Limited? (1 mark)

(d) How will the amount of the new provision be shown in the balance sheet of Nicam Limited? (1 mark)

(e) Identify the two major accounting concepts in the above case. (2 marks)

HKALE

AL1. AL2002.P1.Q5(C) (modified)

Fat Tat Ltd provides two months' credit to its customers. The ageing analysis of debtors at 31 December 2001 was:

Additional information:

Outstanding	$
Within one month	450 000
One to three months	560 000
Over three months	60 000
	1 070 000

(i) Allowance for doubtful debts at 31 December 2000 was $25 000.
(ii) A debtor owing $20 000 for over three months was declared bankrupt.
(iii) The cheques issued by a debtor owing $10 000 for two months had been dishonoured three times. The company filed a petition to the court to recover the debt and estimated that 40% of the amount was recoverable.
(iv) Allowance for doubtful debts was to be made at the year end according to the duration of debts. The rates to be applied were: 1% for debts outstanding for less than one month, 2% for debts outstanding for one to three months and 4% for those longer than three months.

REQUIRED:

Prepare the allowance for doubtful debts account of Fat Tat Ltd for the year ended 31 December 2001. (3 marks)

HKDSE

1. 2016.Q4(d)

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)

Note: Since HKDSE 2020, the allowance method should be used. Ignore the answer for CE1992 Q3 below.

CE Answer

CE1992.Q3

(a)

Bad Debts

1989		$	1989		$
Mar 3	Wilson Co.	5,000	Dec 31	Profit and loss A/C	20,000
Apr 7	A Tang	3,000			
Aug 15	E Ng	800			
Oct 11	Ramsan Co.	11,200			
		20,000			20,000
1990			1990		
Feb 10	Sunny Electronics	110,000	Dec 31	Profit and loss A/C	147,200
Mar 25	C Leung	4,000			
Jun 5	Novel Shop	32,000			
Jul 11	K Wong	1,200			
		147,200			147,200

(b)

Provision for Bad Debts

1989		$	1989		$
Dec 31	Bal c/d (250,000 x 5%)	12,500	Dec 31	Profit and loss A/C	12,500
1990			1990		
Dec 31	Bal c/d (670,000 x 8%)	53,600	Jan 1	Bal b/d	12,500
			Dec 31	Profit and loss A/C	41,100
		53,600			53,600
1991			1991		
Dec 31	Profit and loss A/C	10,400	Jan 1	Bal b/d	53,600
Dec 31	Bal c/d (432,000 x 10%)	43,200			
		53,600			53,600

(c)

Ramsan Co.

1989		$	1989		$
Jan 1	Bal b/d	11,200	Oct 11	Bad debt	11,200
1991			1991		
Feb 20	Bad debts recovered	11,200	Feb 20	Bank	11,200

CE1997.Q1

(a) A business creates a provision for doubtful debts to avoid overstating its profits and its debtors. 4

If sales are reflected by debtors in the statement of financial position which will not turn into cash, then the profits of the period when the sale was made will be overstated, and that of the subsequent period (when the debt has to be written off) will be understated.

By making a provision to the extent of expected loss, one relates such losses to the period in which the sales took place.

(2 marks for each relevant point, max. 4 marks)

(b) The provision should be reduced if it is considered to be excessive. Such may occur when the amount of total credit sales drops or when a doubtful debtor pays in full, or when there is a reduction in the amount of outstanding debtors at the year end. 2

(c) The reduction of $9000 will be shown as a credit in the income statement of Nicam Limited. 1

(d) The new provision ($58 000) will be deducted from the total debtors under the heading of 'current assets' in the statement of financial position. 1

(e) The prudence concept and the matching / accrual concept. 2

(10)

Total: 10 marks

ALE Answer

Allowance for doubtful debts

	2001		$	2001		$	
.5	Dec 31	Bad debts	1 900	Jan 1	Balance b/d	25 000	.5
2	Dec 31	Balance c/d (W1)	23 100				
			25 000			25 000	

Note: Since DSE 2020, the allowance method is adopted for the allowance for doubtful debts account. The corresponding account for the increase / decrease in allowance for doubtful debts is **bad debts**, instead of "profit and loss" using the direct write-off method (applicable to DSE 2019 and prior years).

Working (1)

		$	
Debtor within 1 month	(450 000 x 1%)	4 500	0.5
Debtors within 1 – 3 months	[(560 000 – 10 000) x 2%]	11 000	0.5
	10 000 x 6%	6 000	0.5
Debtors over 3 months	[(60 000 – 20 000) x 4%]	1 600	0.5
		23 100	

DSE Answer

1. 2016.Q4(d)

($450 000 x 1%) + ($180 000 - $20 000) x 3% + ($60 000 x 10%) 2

= $4500 + $4800 + $6000

= $15 300

3

1. 2015.Q9(b)(i) (Modified)

A physical inventory count on 4 January 2015 showed that the value of inventory on that date was $31 700. During the period 1 January to 4 January 2015, there were credit purchases with a total list price of $3000. A trade discount of 10% has been given by the supplier on these purchases and a 2% cash discount would be received if the settlement was made in two weeks. Goods costing $5000 were sold during these 4 days.

(b) Calculate the following amounts at 31 December 2014:
(i) Inventory (2 marks)

2. 2017.Q2

Tommy Company sells only one product and uses the weighted average cost method for inventory valuation. The following information for the month of March 2017 was available:

Date	Details	Units	Cost/unit
			$
March 12	Purchases	500	40
March 20	Purchases	1 500	36

Date	Details	Units	Selling price/unit
			$
March 8	Sales	250	45
March 28	Sales	1 600	39

The opening inventory as at 1 March 2017 included 400 units with an average cost of $43 each. Operating expenses for the month were $14 350.

REQUIRED:

(a) Compute the value of closing inventory as at 31 March 2017. Show your workings. (2 marks)
(b) Prepare the income statement for the month ended 31 March 2017, showing clearly the values of opening inventory, purchases and closing inventory. (3 marks)
(c) If the net realisable value of the closing inventory as at 31 March was $35 per unit, explain the impact, with supporting calculations, on the amount of gross profit for the month of March 2017. (3 marks)

(Total: 8 marks)

3. 2017.Q7(b)

Mark started his business as a sole proprietor on 1 January 2015. On 31 December 2016, a fire broke out in the warehouse. All inventory, except some goods costing $15 000, was destroyed.

(b) Briefly explain the meaning of normal loss and abnormal loss of inventory. Identify the type of inventory loss caused to Mark's business by the fire. (3 marks)

BAFS – Valuation of Inventory (Sample Paper – 2021)

4. 2020.Q3

Andy Company uses the weighted average cost method for inventory valuation. The information relates to the inventory of its single product is available:

(i) There were 500 units of product in the opening inventory as at 1 February 2020, with an average cost of $35 each.

(ii) In February 2020, the company recorded the following:

- On 10 February, 1 000 units of product were purchased at $32 000.
- On 14 February, 350 units of product were sold at $45 each.
- On 23 February, 400 units of product were sold at $39 each.
- On 29 February, 100 units of product were found to be obsolete and could only be sold for $30 each.

REQUIRED:

(a) Compute the value of closing inventory as at 29 February 2020. (3 marks)

(b) Prepare an extract of the income statement for the month ended 29 February 2020, showing the calculation of gross profit. (2 marks)

(c) An accounts clerk in Andy Company said, 'If only 5 units instead of 100 units of product were obsolete on 29 February 2020, no inventory adjustments would be required since the loss was insignificant.'

Explain whether you agree with the accounts clerk or not. (1 mark)

(Total: 6 marks)

5. 2021.Q4

The account balances of Jacky Company as at 1 March 2021 are as follows:

	$	
Bank	800	Cr
Cash	18 500	
Trade receivables - Mandy	5 600	
Trade payables - Vincy	4 880	
Inventory (550 units)	16 500	
Prepaid operating expense (for March)	1 000	

The company uses the weighted average cost method for inventory valuation.

The transactions of Jacky Company during March 2021 are as follows:

March	
2	Mandy settled the balance on 1 March by cheque with a cash discount of 5%.
3	Paid $2 400 cash to Vincy to settle half of the outstanding amount on 1 March.
6	Purchased goods of $32 each from Paul by cheque for $14 400.
8	Purchased 2 000 units of goods from Perry on credit. The unit list price and trade discounts were $36 and 5% respectively.
10	A customer, Suki, purchased 220 units of goods at $55 each by cheque.
15	A customer, Susan, purchased 1 800 units of goods on credit at $54 each. She would receive a cash discount of 4% for settlement within 15 days.
20	Susan returned 300 units of goods purchased on 15 March.
24	Susan settled the outstanding amount by cheque.
25	Paid $12 300 operating expenses for March in cash.
31	Paid carriage inwards of $2 700 for March by cheque.

REQUIRED:

(a) Prepare a three-column cash book for the month ended 31 March 2021. (6 marks)

(b) Prepare an income statement for the month ended 31 March 2021. (6 marks)

CE Questions

1. 1992.Q1

MacMac Tool Company
Statement of the Revised Closing Stock as at 31 March 1992

	$	$
Balance before adjustment		467,500
Add: (ii) Component parts understated ($36,600 – $30,660)	5,940	
(iv) Stock purchased but not yet received	165,000	170,940
		638,440
Less: (i) Machinery written down to net realizable value [$63,300 – ($64,000 – $2,500)] × 5	9,000	
(iii) Stock sold but not yet delivered ($3,400 × 2)	6,800	
(v) Damaged electric pumps written off	36,000	51,800
Revised closing stock at March 31, 1992		586,640

2. 1992S.Q9

(a)

Che Sang
Calculation of the value of stock lost in the burglary as at 15 July, 1991

	$	$
Stock at 1.1.91		34,760
Purchases 1.1.91 — 15.7.91		245,950
Total goods available		280,710
Less: Cost of goods sold:		
Sales 1.1.91 — 15.7.91	375,900	
Less: Gross margin (33 1/3 % thereof)	125,300	250,600
Stock on hand at 15.7.91		30,110
Less: Value of stock left behind by burglars ($12,500 – $2,500)		10,000
Value of stock lost in the burglary		20,110

(b) **Statement of the amount of insurance claim**

	$
Claim on:	
Cash	680
Automatic scales	550
Stock	20,110
Total claim on the insurance company.	21,340

(c) **Journal**

		Dr.	Cr.
1991		$	$
Aug 31	Bank	21,340	
	Profit and loss account	100	
	Cash		680
	Equipment		650
	Purchases		20,110
	(Being the insurance claim from the burglary settled)		

3. 1996.Q4

Statement showing calculation of stock as at 31 March 1996

		$	$	
Stock at 31 December 1995 (i)			54 378	1
Add:	Purchases in January, February and March (vi)	61 632		1
	Purchases received but not yet invoiced (vii)	2 050		1
	Goods returned by customers (viii)	890	64 572	1
Less:	Goods invoiced in January, February and March (ii)	65 020		1
	Less: 25% mark-up on cost (65 020 x 25/ 125) (1) (1)	13 004		2
		52 016		
	Items scrapped (iv)	648		1
	Correction of error in December stock sheet (v)	210		1
	Goods returned to supplier (viii)	374	53 248	1
Stock at 31 March 1996			65 702	(10)

4. 1999.Q4

Computation of stock value as at 31 March 1999

		$	$	
Valuation as at 10 April 1999			38 625	
Add:	Cost of normal sales (i) [($12 600 – 1000) × 80%]	9 280		1½
	Purchases returns (i)	700		1
	Cost of sales to employees (iii) [($1000 + 200) × 80%]	960		1½
	Stock undercast (v)	410	11 350	1
			49 975	
Less:	Purchases (i)	10 500		1
	Cost of sales returns (i) ($600 × 80%)	480		1
	Stock written off (iv)	850	11 830	1
Corrected stock valuation at 31 March 1999			38 145	(8)

(b)

Computation of corrected total current assets at 31 March 1999

	$	
Net current assets per draft accounts	69 864	½
Less: Decrease in stock ($38 625 – 38 145)	480	1
Corrected net current assets at 31 March 1999	69 384	½
		(2)

5. 1997.Q8

(a)

Statement showing the computation of stock value as at 31 March 1997

		$	$	
Stock at 31 December 1996			52 673	1
Add:	Purchases (viii)	84 226		2
	Returns by customers (ix) ($876 ÷ 120%)	730		2
	✓ Goods sent on a sale or return basis (x) ($840 ÷ 120%)	700	85 656	2
			138 329	
Less:	✓ Goods sent to customers (iii) ($48 000 ÷ 120%)	40 000		2
	Stock written off (iv)	1 000		1
	Stationery stock (v)	750		1
	Office equipment (v)	1 600		1
	Goods invoiced to customers (vi) ($66 000 ÷ 120%)	55 000		2
	Stock sheet over-added (vii)	1 104		1
	Goods returned to supplier (ix)	734		1
	✓ Stock reduced to net realisable value (xi) [$900 – ($900 × 120% – $300)]	120	100 308	2
Stock at 31 March 1997			38 021	

Total for part (a): 16 marks

(b) A stocktaking refers to the physical counting of the stock in order to determine the quantity and the value of each type of stock held in a business. This process is usually done once a year on the last day of the accounting period. However, stocktaking may take place more frequently according to the need of the company.

4 marks

6. 2006.Q3B

(a) Net profit for the year ended 31 December 2004
– overstated by $80 000 — 2

(b) Net profit for the year ended 31 December 2005
– understated by $10 000 — 2

(c) Retained profits as at 31 December 2005
– overstated by $70 000 — 2

(6)

7. 2008.Q3(B)

Statement to calculate the closing stock value of Mr Wong's business as at 31 December 2007

		$	$	
Closing stock value as at 6 January 2008			38 420	
Add:	(ii) Net sales after year end [($6880 – $5900) × 100/125]	784		2
	(iii) Drawings after year end	350		1
	(iii) Discounted sales to staff ($2000 × 2 × 100/125)	3 200		2
	(iv) Goods held by customer for inspection	720	5 054	1
			43 474	
Less:	(i) Damaged goods	100		1
	(ii) Purchases after year end	7 230	7 330	1
Closing stock value as at 31 December 2007			36 144	2
				(10)

8. 2009.Q7(a)

Computation of stock value at 31 December 2007

		$	$	
Stock value as at 13 January 2008			78 178	
Add:	Cost of normal sales ($45 000 × 80%)	36 000		1
	Returns outwards	470	36 470	1
			114 648	
Less:	Cost of returns inwards ($800 × 80%)	640		1
	Purchases ($29 680 – $300)	29 380		1
	Stock written down ($1 000 × 80% – $600)	200		2
	Stock overcast	1 720		1
	Stock received on a sale or return basis	960	32 900	1
Stock value as at 31 December 2007			81 748	1
				(9)

DSE Questions

1. 2015.Q9(b)(i) (Modified)

(b)(i) Inventory
= $31 700 – ($3000 x 0.9) + $5000
= $34 000 — 2

2. 2017.Q2

(a) Number of units remaining unsold = (400 + 500 + 1500) – (250 + 1600) = 550 units
Unit average cost = $(17 200 + 20 000 + 54 000) / 2400 units = $38/unit
Value of closing inventory = $38 x 550 units = **$20 900** — (2)

(b)

Tommy Company
Income statement for the month ended 31 March 2017

	$	$	
Sales (250 x $45 + 1600 x $39)		73 650	0.5
Less: Cost of goods sold			
Opening inventory	17 200		0.5
Purchases	74 000		0.5
	91 200		
Less: Closing inventory	**20 900**	70 300	0.5
Gross profit		3 350	0.5
Less: Operating expenses		14 350	0.5
Net loss		11 000	0.5
			(5)

(c)
- the gross profit for the month of March will decrease by $1650 ($3 x 550) / decrease to $1700 — 2
- Because of applying the rule of lower of cost and net realisable value — 1

(3)
8 marks

3. 2017.Q7(b)

(b)
- normal loss is an expected loss arising from normal purchases or production activities — 1
- abnormal loss is an unexpected loss in the operation of a business — 1
- the loss caused to Mark's business by the fire is an abnormal loss — 1

(3)

4. 2020.Q3

(a)

Number of units remaining unsold = (500 + 1 000) - (350 + 400) = 750 units — 0.5

Unit average cost of closing inventory = $\dfrac{500 \times \$35 + \$32\,000}{500 + 1\,000}$ = $33 per unit — 1

Value of closing inventory as at 29 February 2020:
= (650 x $33) + (100 x $30) or (750 x $33) - (100 x $3)
= $24 450 — 1.5

(3)

(b)

Andy Company
Income statement for the month ended 29 February 2019 (extract)

	$	$	
Sales [(350 units x $45 + 400 units x $39)		31 350	0.5
Less: Cost of goods sold			
Opening inventory	17 500		
Add: Purchases	32 000		0.5
	49 500		
Less: Closing inventory	**24 450**	25 050	0.5
Gross profit		6 300	0.5
			(2)

(c) No, as the inventory should be valued at the lower of cost or net realisable value. (1)

6 marks

1992 Q.1

The closing stock on the balance sheet of MacMac Tool Company prepared on 31 March 1992 showed a total of $467,500. The following information concerning the stock of the company was revealed on 3 April 1992:

(i) Five machines bought at a cost of $63,300 each, were found to be defective. The Engineering Department suggested replacing the defective parts with new ones which could be obtained on the market at $2,500 each. After the repair each machine would be sold at $64,000.

(ii) A stock sheet of component parts totalling $36,600 had been transferred to the summary sheet as $30,660.

(iii) Two electric hand tools which cost $3,400 each were sold on 28 March 1992. The sales records were properly entered but the goods were not delivered until 2 April 1992.

(iv) Three machines which cost a total of $165,000 were purchased in the last week of March 1992. However, delivery was only made on 1 April 1992.

(v) In January 1992, three electric pumps costing $36,000 each were mistakenly delivered by the company to one of its showrooms. One pump was severely damaged and should be written off as total loss. All three pumps were returned to the warehouse of MacMac Tool Company in mid-February but the store-keeper did not report the loss.

Required:

Prepare a statement for the revised closing stock as at 31 March 1992. (10 marks)

1992S Q.9

Che Sang is a retailer grocer. On the light of 15 July 1991, there was a burglary in the shop and a quantity of stock was stolen. It was also found that cash in the till which amounted to $680 had been taken. The money was received from customers for goods sold and entries had been made in the books of the shop. The only equipment lost in the burglary was a pair of automatic scales. According to the books of the shop, the scales had a net book value of $650 but the insurance claim in respect of this item was agreed at $550.

On enquiry, you are given the following information:

(i) The shop was fully covered for insurance purpose.

(ii) Stock at 1 January 1991 was $34,760.

(iii) Purchases for the period 1 January - 15 July 1991 were $245,950. Sales for the same period were $375,900.

(iv) The average ratio of gross profit to sales for the period was 33 1/3%.

(v) Some stock was left behind by the burglars and this was valued at cost $12,500. However, some of these goods had been damaged during the burglary and it was decided to write off $2,500 from the cost price.

(vi) The insurance claim was settled by cheque on 31 August 1991.

Required:

(a) Calculate the value of stock lost in the burglary.

(b) Prepare a statement to show the amount to be claimed from the insurance company.

(c) Prepare journal entries to record the necessary adjustments resulting from the burglary and the insurance settlement in the books of Che Sang. (10 marks)

1996 Q.4

The stock of Cindy Limited was taken on 31 March 1996 and the final figure was to be incorporated in the financial reports for the three months ending 31 March 1996. However, the stock sheets were lost and further investigation revealed the following information:

(i) Stock at 31 December 1995 was $54,378, at cost.

(ii) Goods invoiced to customers in respect of January, February and March 1996 amounted to $65,020.

(iii) Selling prices are determined by a 25% mark-up on cost.

(iv) Certain items in stock at 31 December 1995 valued at $648 were scrapped in February 1996.

(v) A scrutiny of the stock sheets as at 31 December 1995 revealed that one sheet had been over-added by $210.

(vi) Purchases of $61,632 during the three months ended 31 March 1996 had been duly entered in the accounting records.

(vii) Goods received in March 1996 amounting to $2,050 had not yet been invoiced by the supplier.

(viii) Goods returned to suppliers during the quarter amounted to $374 and goods returned by customers in this period amounted to $890, at cost.

Required:

Compute the amount of stock for inclusion in the financial reports for the quarter ending 31 March 1996. (10 marks)

1999 Q.4

The annual stocktaking of Wilson Limited did not take place on the day of the company's year end, 31 March 1999. However, stock was taken on 10 April 1999 when the business closed for the weekend. The stock value of $38,625 as at 10 April 1999 was used in the calculation of total current assets at 31 March 1999, which amounted to $69,864.

Subsequent investigation revealed the following:

(i) During the period from 1 to 10 April 1999, the company recorded the following:

	$
Sales	12,600
Sales returns	600
Purchases	10,500
Purchases returns	700

(ii) A gross profit margin of 20% was achieved on all normal sales.

(iii) Included in sales was an amount of $1,000 sales to employees. A special discount of $200 had been given on this sale.

(iv) A quantity of stock included at cost of $850 on 10 April 1999 should have been treated as worthless on 31 March 1999.

(v) A stock sheet prepared on 10 April 1999 had been undercast by $410.

Required :

(a) Compute the amount of stock as at 31 March 1999. (8 marks)

(b) Show the corrected total current assets at 31 March 1999. (2 marks)

1997 Q.8
The annual stocktaking of Leader Limited did not take place at the company's year end on 31 March 1997. However, stock had been taken on 31 December 1996 for interim reporting purpose.

Subsequent investigation revealed the following information:

(i) Stock at 31 December 1996 was $52,673.

(ii) Selling prices are determined by a 20% mark-up on cost.

(iii) Goods sent to customers in the period January to March 1997 amounting to $48,000 at selling price had not yet been invoiced.

(iv) Goods costing $1,000 included in the stock valuation at 31 December 1996 was found to be worthless on 31 March 1997.

(v) The stock valuation of 31 December 1996 included $750 stationery stock and $1,600 office equipment, both valued at cost. -------------------------------- $2,350 office equipment for office use,

(vi) Goods invoiced to customers in the period January to March 1997 amounted to $66,000.

(vii) One of the stock sheets of 31 December 1996 had been over-added by $1,104.

(viii) Goods purchased in the quarter ended 31 March 1997 amounted to $84,226 had been received and recorded.

(ix) During the three months ended 31 March 1997, goods returned to suppliers amounted to $734 and goods returned by customers amounted to $876, at selling price.

(x) Goods with a selling price of $840 were sent on 1 March 1997 on a sale or return basis to a customer. This transaction had been recorded as sales.

(xi) Goods costing $900 were damaged and it would cost $300 to restore them to a saleable condition. There would be no change in the selling price obtainable.

Required:

(a) Draw up a statement to compute the appropriate stock value as at 31 March 1997. (16 marks)

(b) What is a stocktaking and how often should it be carried out? (4 marks)

Valuation of Stock

2006 – Q.3B

On 1 January 2006, ABC Ltd. found that its closing stock had been overstated by $80 000 at 31 December 2004 and $70 000 at 31 December 2005.

You are required to:
Indicate how the above errors would have affected the following:

(a) the net profit for the year 2004,

(b) the net profit for the year 2005, and

(c) the retained profits as at 31 December 2005.

(6 marks)

2008 – Q.3B

Due to unexpected circumstances, the year-end physical stocktaking of Mr. Wong's business was delayed from 31 December 2007 to 6 January 2008. The cost of stock as at the close of business on 6 January 2008 was $38 420.

Additional information:

(i) After the physical count, an item costing $100 was found to be worthless. It was damaged by a warehouse worker on 30 December 2007.

(ii) The purchases and sales during the period 1 to 6 January 2008 amounted to $7230 and $6880 respectively. During this period, goods at the invoiced price of $5900 were returned by customers and there were no returns outwards. It is the company's policy to sell all goods at a 25% mark-up on cost.

(iii) Goods costing $350 was drawn by Mr. Wong on 4 January 2008 for his personal use. In addition, goods were sold on 5 January 2008 to company staff for $2000, being 50% of the normal selling price. Both events had not been recorded in the books.

(iv) Goods costing $720 were sent to a customer on 20 December 2007 for inspection. The customer confirmed his acceptance of the goods on 8 January 2008.

REQUIRED:

Prepare a statement to calculate the closing stock value of Mr. Wong's business as at 31 December 2007. (10 marks)

2009– Q.7a

The annual physical stocktaking of Albert Shop did not take place on the day of the company's year end, 31 December 2007. However, stock was taken on 13 January 2008 when the business closed for the weekend. All normal sales by the company are made at a gross profit of 20% on sales.

Subsequent investigation revealed the following:

(i) Stock at 31 January 2008 was $78 178.

(ii) During the period from 1 January to 13 January 2008, the company recorded the following:

	$
Sales	45 000
Returns inwards	800
Purchases	29 680
Returns outwards	470

Included in the purchases was an amount of $300 for carriage inwards which was mistakenly charged by a supplier.

(iii) An item of stock with a normal selling price of $1000 was purchased in 2005. It was found to be obsolete and could only be sold for $600.

(iv) One of the stock sheets dated 13 January 2008 had been overcast by $1720

(v) Included in stock were goods with an invoiced price of $960 which were received on a sale or return basis from a supplier on 28 December 2007. Albert Shop had not notified the supplier of its intention to buy the goods by 13 January 2008.

REQUIRED:

(a) Prepare a statement to calculate the amount of stock as at 31 December 2007.

(9 marks)