2000 Q.3

Mandy Limited has an authorised share capital consisting of 500,000 ordinary shares of $2.50 each and 50,000 8% preference shares of $10 each. An extract of the share capital and reserves section of its balance sheet at 31 December 1999 is shown below:

	$	$
Issued and fully paid share capital		
19,000 8% preference shares		?
? Ordinary shares		1,000,000
		?
Reserves		
Share premium	600,000	
Retained profits	720,800	1,320,800
		?

Additional information:

(i) The shares were all issued on 1 January 1997 and the preference shares were issued at par.

(ii) There were no other transactions affecting the share capital and share premium accounts after the first issue.

(iii) The balance in retained profits at 1 January 1999 was $590,000 and there were no dividends in arrears. Net profit for the year was $250,000.

Required to calculate:

(a) the amount of authorised share capital; (1½ marks)
(b) the amount of paid-up preference share capital; (1 mark)
(c) the amount of issued share capital; (1 mark)
(d) the number of ordinary shares issued; (1½ marks)
(e) the amount of dividend that should be paid annually to preference shareholders; (1 mark)
(f) the average issue price of an ordinary share; and (2 marks)
(g) the amount of ordinary dividend declared during the year 1999. (2 marks)

2003 Q.4

Hamilton Limited has an issued capital consisting of 100,000 ordinary shares of $1 each. The information below relates to the year 2001:

As at 1 January 2001	$
Current assets	45,000
Total assets	180,000
Long-term liabilities	57,000
Current ratio	3 : 1
As at 31 December 2001	$
Fixed assets	153,000
Total assets	213,000
During the year ended 31 December 2001	$
Increase in working capital	9,000
Net profit for the current year	40,000
Transfer to general reserve	7,000
Retained profit for the current year	20,000

You are required to:

(a) Calculate the following figures for Hamilton Limited:
- (i) Fixed assets, 1 January 2001
- (ii) Current liabilities, 1 January 2001
- (iii) Shareholders' fund, 1 January 2001
- (iv) Current assets, 31 December 2001
- (v) Current liabilities, 31 December 2001
- (vi) Dividends declared for the year 2001 (8 marks)

On 1 January 2002, Hamilton Limited made an additional issue of 200,000 ordinary shares at $1.80 per share, payable in full on application. Applications were received for 220,000 shares and the cash was returned to the unsuccessful applicants on 15 January 2002. The shares were duly allotted to the other applicants on the same date.
On 1 July, Hamilton Limited raised additional finance by issuing $600,000 5% debentures at 98. Debenture interest was to be paid half-yearly on 30 June and 31 December.

You are required to:

(b) Prepare journal entries for Hamilton Limited to record the above transactions in 2002. (Narrations are not required.) (6 marks)

1992S Q.8

Happy Ltd. With an authorised capital of $100,000 was incorporated and started its business on 1 January 1991. A summary of the bank statements of the company for the year ended 31 December 1991 is as follows:

	Paid	Received
	$	$
Issue of shares		140,000
Issue of 10% debentures		100,000
Purchase of fixture	80,000	
Trade creditors	190,000	
Credit sales		170,000
Cash sales		60,000
Salaries	10,000	
Rent and rates	20,500	
Insurance	400	
General expenses	1,000	

The following information is available:

(i) All authorised capital of the company was issued at a premium and fully paid up to 1 January 1991.

(ii) The 10% debentures were issued at par on 1 July 1991.

(iii) All cash received from cash sales was banked after paying the following expenses:

	$
Salaries	1,000
Cash purchases	800
General expenses	700

(iv) Discounts received and allowed were $3,000 and $2,000 respectively.

(v) Fixtures were to be depreciated by 25% of the book value at the end of the year.

(vi) All goods were sold at a fixed margin of 25% on sales.

(vii) At 31 December 1991 the following balances were provided:

	$
Trade creditors	15,000
Trade debtors	25,000
Rates paid in advance	500
Salaries outstanding	400

Required:

(a) Prepare a trading and profit and loss account for the year ended 31 December 1991; and

(b) A balance sheet as at 31 December 1991. (20 marks)

1993 Q.7 (amended)
The authorized capital of Sunrise Ltd. is $3,500,000 consisting of 1,000,000 8.5% preference shares of $2.00 each and 1,500,000 ordinary shares of $1.00 each.

The following trial balance was extracted from the books of Sunrise Ltd. on 30 June 1992:

	$	$
800,000 8.5% preference shares, fully paid		1,600,000
1,000,000 ordinary shares, fully paid		1,000,000
Share premium		12,600
Fixed assets replacement reserve		20,000
Unappropriated profit		25,900
Buildings (net), 1 July 1991 (cost: $2,000,000)	1,672,000	
Plant and machinery (net), 1 July 1991 (cost: $1,780,000)	1,210,000	
Stock	93,000	
Debtors	79,000	
Creditors		34,000
Cash at bank	198,500	
Interim dividend paid: preference shares	100,000	
ordinary shares	90,000	
Sales		1,321,500
Purchases	487,000	
Discounts received		9,800
Discounts allowed	10,500	
Rent and rates	37,300	
Wages and salaries	43,000	
Sundry expenses	8,300	
Provision for bad and doubtful debts		4,800
	4,028,600	4,028,600

You are given additional information as follows:

(i) Stock at 30 June 1992 amounted to $85,000.

(ii) Provision for bad and doubtful debts was to be maintained at 5% of debtors.

(iii) A full year's depreciation was to be provided on fixed assets held at the end of the year on a straight-line basis at the following rates:

Buildings	8%
Plant and machinery	15%

(iv) Rental of $21,000 had been paid for 3 months ending 31 August 1992.

(v) The managing director was entitled to a salary equal to 10% of the net profit (after deduction of his salary).

(vi) The board of directors decided to raise the fixed assets replacement reserve to $28,000 and to propose a final dividend of 5% on ordinary shares.

Required:

(a) Prepare the trading, profit & loss and appropriation account of Sunrise Ltd. for the year ended 30 June 1992, and (11 marks)

(b) the balance sheet of Sunrise Ltd. as at the same date. (9 marks)

1995 Q.7

The following trial balance had been extracted from the books of Wilson Limited at 31 March 1995:

	$	$
800,000 ordinary shares of $1 each, fully paid		800,000
250,000 10% preference shares of $1 each, fully paid		250,000
Stock	215,000	
Office equipment, at cost	1,000,000	
Furniture and fitting, at cost	900,000	
Provision for depreciation		
Office equipment		375,000
Furniture and fitting		105,250
General reserves		35,000
12% debentures		300,000
Trade debtors	525,000	
Trade creditors		327,150
Cash at bank	518,900	
Sales		2,875,000
Purchases	1,735,000	
Interim preference dividend	10,000	
Interim ordinary dividend	20,000	
Bad debts	18,400	
Provision for doubtful debts		5,250
Debenture interest	36,000	
Share premium		24,000
Retained profits		153,000
Share issue		260,000
Rent and rates	150,000	
Wages and salaries	257,000	
Sundry expenses	25,600	
Discounts	2,700	1,950
Administration expenses	98,000	
	5,511,600	5,511,600

Additional information:

(i) The authorised share capital comprised 1,500,000 ordinary shares of $1 each and 300,000 10% preference shares of $1 each.

(ii) Stock as at 31 March 1995 amounted to $350,000.

(iii) Depreciation was to be charged as follows:

Office equipment	- 10% per annum on a straight-line basis
Furniture and fitting	- 10% per annum on a reducing balance basis

(iv) The following adjustments were to be made on 31 March 1995:

	$
Accrued wages and salaries	4,000
Prepaid rent and rates	3,000

Provision for doubtful debts was to be maintained at 2% of trade debtors.

(v) The directors resolved to transfer $80,000 to the general reserve and to propose a final dividend of 5% on ordinary shares.

(vi) In March 1995, 200 000 ordinary shares were offered to the public at $1.30 per share. The company had only debited the cash at bank account and credited the share issue account in respect of this issue. The new shares were not entitled to the dividend proposed for the year ended 31 March 1995.

Required:

(a) Prepare the trading, profit and loss and appropriation account of Wilson limited for the year ended 31 March 1995, and (10 marks)

(b) the balance sheet of Wilson Limited as at the same date. (10 marks)

1997 Q.7

The following trial balance was extracted from the books of Linda Limited at 31 March 1997:

	$	$
500,000 8% preference shares of $1 each, fully paid		500,000
500,000 ordinary shares of $1 each, fully paid		500,000
10% debentures (issued in 1994)		100,000
Plant and machinery, at cost	1,700,000	
Furniture and fittings, at cost	420,000	
Provision for depreciation		
Plant and machinery		350,000
Furniture and fittings		150,000
General reserve		42,000
Retained profits		124,365
Trade debtors	480,600	
Stock	17,060	
Trade creditors		383,272
Debenture interest	5,000	
Provision for doubtful debts		12,404
Share premium		50,000
Carriage inwards	5,600	
Wages and salaries	320,000	
Purchases	1,894,000	
Rent and rates	365,000	
Sundry expenses	17,210	
Discounts received		2,560
Cash at bank	271,931	
Interim preference dividend	18,000	
Interim ordinary dividend	20,000	
Bad debts	7,800	
Sales		2,945,000
Suspense account		182,600
	5,342,201	5,342,201

Additional information:

(i) Depreciation was to be charged as follows:
Plant and machinery - 10% on cost
Furniture and fittings - 15% on net book value

(ii) Stock as at 31 March 1997 amounted to $24,180.

(iii) The following adjustments were to be made on 31 March 1997:

	$
Accrued wages and salaries	5,000
Prepaid rent and rates	6,000

Provision for doubtful debts was to be maintained at 3% of trade debtors.

(iv) The board of directors proposed to transfer $100,000 to general reserve and to declare a final dividend of 5% on ordinary shares.

(v) In March 1997, 100,000 ordinary shares were offered to the public at $1.25 per share, and $60,000 10% debentures were issues at 96. The company debited the cash at bank account and credited the suspense account in respect of these issues. The new shares were not entitled to the dividend proposed for the year ended 31 March 1997. One month's interest was to be paid on the new debentures.

Required to prepare:

(a) the trading, profit and loss and appropriation account of Linda Limited for the year ended 31 March 1997, and (9 marks)

(b) the balance sheet of Linda Limited as at the same date. (11 marks)

2000 Q.8

The following trial balance was extracted from the books of Moon Limited at 31 March 2000:

	$	$
1,200,000 ordinary shares of $0.50 each, fully paid		600,000
Furniture and fittings, at cost	1,500,000	
Motor vehicles, at cost	500,000	
Provision for depreciation		
Furniture and fittings		427,000
Motor vehicles		118,000
Retained profits		93,600
General reserve		67,000
Trade debtors	364,600	
Trade creditors		241,200
Stock	26,410	
10% loan (borrowed in 1998 and repayable in 2002)		200,000
Cash at bank	333,290	
Share premium		401,000
Provision for doubtful debts		5,400
Sales		2,954 300
Purchases	1 716,600	
Loan interest	15,000	
Carriage inwards	6,000	
Sales returns	20,000	
Purchases returns		9,000
Administration expenses	409,150	
Selling and distribution expenses	205,450	
Interim ordinary dividend	20,000	
	5,116,500	5,116,500

Additional information:

(i) Depreciation was to be charged as follows:
Furniture and fittings - 10% on net book value
Motor vehicles - 20% on cost

(ii) Stock as at 31 March 2000 amounted to $28,500.

(iii) The following adjustments were to be made on 31 March 2000:

	$
Accrued carriage inwards	400
Prepaid administration expenses	9,600

(iv) An amount of $2,200 owing from a customer was to be settled by contra with his account as a supplier.
Trade debtors amounting to $4,000 were to be written off and a provision for doubtful debts was to be maintained at 3% of trade debtors.

(v) Directors' fees of $ 35,000 were to be provision for.

(vi) The directors resolved to transfer $85,000 to the general reserve and to propose a final ordinary dividend of $0.05 per share.

(vii) On 1 April 1999, $300,000 9% debentures were issued at 98. The company debited the bank account and credited the share premium account in respect of this issue. Discount on debenture was to be written off against the share premium account evenly over three years. No debenture interest has yet been paid.

Required:

(a) Prepare the trading, profit and loss and appropriation account of Moon Limited for the year ended 31 March 2000, and (10 marks)

(b) the balance sheet of Moon Limited as at the same date. (10 marks)

2001 Q.7

The following trial balance was extracted from the books of Kelly Limited at 31 March 2001:

	$	$
450,000 ordinary shares of $2 each, fully paid		900,000
Office premises, at cost	4,000,000	
Office equipment, at cost	640,000	
Provision for depreciation		
Office premises		1,980,000
Office equipment		280,000
Retained profits		448,365
General reserve		49,675
Trade debtors	125,000	
Trade creditors		87,400
Stock	31,270	
Debenture interests	32,000	
Provision for doubtful debts		4,250
Share premium		45,000
Cash at bank	408,853	
Share and debenture issue		925,000
Interim dividend	100,000	
Purchases	1,868,200	
Sales		3,108,800
Administration expenses	439,400	
Selling and distribution expenses	171,562	
Bad debts	12,205	
	7,828,490	7,828,490

Additional information:

(i) Office equipment costing $5,000 and with a provision for depreciation of $2,000 was sold for $1,200. The sale had been recorded as cash sales.

(ii) Depreciation was to be charged as follows:
Office premises - 2% per annum on a straight-line basis
Office equipment - 20% per annum on a reducing balance basis

(iii) Stock as at 31 March 2001 amounted to $36,420.

(iv) The following adjustments were to be made on 31 March 2001:

	$
Accrued administration expenses	6,400
Prepaid selling and distribution expenses	3,900

Provision for doubtful debts was to be maintained at 5% of trade debtors.

(v) $800,000 8% debentures were issued at par on 1 July 2000. The proceeds had been credited to the share and debenture issue account. Interest on debenture was to be paid half yearly on 30 June and 31 December of each year.

(vi) In April 2000, 50,000 ordinary shares were offered to the public at $2.50 per share. The company credited the share and debenture issue account in respect of this issue.

(vii) The board of directors proposed transferring $120,000 to the general reserve and declaring a final dividend of $0.30 per share.

Required to prepare:

(a) the trading, profit and loss and appropriation account of Kelly Limited for the year ended 31 March 2001; and (10 marks)

(b) the balance sheet of Kelly Limited as at the same date. (10 marks)

2002 Q.6

The trial balance of Star Limited at 31 March 2002 was as follows:

	$	$
3,000,000 ordinary shares of $0.5 each, fully paid		1,500,000
8% loan (borrowed in 2000 and repayable in 2005)		750,000
Office equipment, at cost	3,000,000	
Furniture and fittings, at cost	3,300,000	
Provision for depreciation		
Office equipment		625,000
Furniture and fittings		1,125,000
General reserve		105,000
Retained profits		310,912
Trade debtors	910,500	
Trade creditors		574,908
Stock	42,650	
Share premium		125,000
Provision for doubtful debts		19,865
Loan interest	30,000	
Sales		6,062,500
Purchases	2,235,614	
Sales returns	33,725	
Carriage inwards	8,400	
Wages and salaries	800,000	
Rent and rates	768,450	
Cash at bank	69,446	
Interim dividend	60,000	
Administration expenses	597,100	
Selling and distribution expenses	442,300	
Shares issue		1,100,000
	12,298,185	12,298,185

Additional information:

(i) Stock as at 31 March 2002 amounted to $48,050.

(ii) The following adjustments were to be made on 31 March 2002:

	$
Accrued wages and salaries	10,600
Prepaid rates	3,900

(ii) Trade debts amounting to $85,000 were to be written off and a provision for doubtful debts was to be maintained at 3% of trade debts.

(iv) A piece of fully depreciated office equipment costing $92,000 was sold for $6,000. The company only recorded the proceeds from the sale in the bank account and the sales account.

(v) Depreciation was to be charged as follows:
Office equipment - 10% on cost
Furniture and fittings - 20% on net book value

(vi) In October 2001, 1,000,000 ordinary shares were offered to the public at $1.10 per share. The company only debited the cash at bank account and credited the shares issue account. The new shares were also entitled to the final dividend proposed for the year.

(vii) The board of directors proposed transferring $150,000 to the general reserve and to declare a final dividend of $0.03 per share.

Required to prepare:

(a) the trading, profit and loss and appropriation accounts of Star Limited for the year ended 31 March 2002, and (16 marks)

(b) the balance sheet of Star Limited as at the same date. (13 marks)

1994 Q.7 (amended) Manufacturing + Ltd. Co.

On 30 April 1994, the following trial balance was extracted from the books of Yue Fat Co. Ltd:

	$	$
Ordinary share capital		160,000
General reserve		40,000
Retained profits		16,000
6% debentures (issued on 1.5.93)		60,000
Land and buildings	160,000	
Accumulated depreciation		38,000
Plant and machinery	95,000	
Accumulated depreciation		46,250
Stocks		
Raw materials	41,212	
Work in progress	10,060	
Finished goods	31,500	
Consumable tools	6,420	
Debtors	139,610	
Creditors		38,700
Cash at bank		8,332
Cash in hand	2,404	
Sales		329,680
Purchase of raw materials	112,400	
Purchase of consumable tools	2,300	
Carriage inwards	8,600	
Carriage outwards	6,128	
Manufacturing wages	63,700	
Rent and rates: 3/5 office; 2/5 factory	13,175	
Repairs to machinery	2,976	
Administration expenses	32,895	
Interim dividends	8,000	
Debenture interest	1,800	
Discounts received		1,218
	738,180	738,180

Additional information:

(i) Stocks as at 30 April 1994:

	$
Raw materials	38,430
Work in progress	9,828
Finished goods	27,300
Consumable tools	5,010

(ii) Depreciation to be provided for:

Land and buildings	15% on cost
Plant and machinery	20% on net book value

(iii) The Directors' fee of $15,000 was to be provided for.

(iv) The directors proposed to transfer $4,000 of the profits to the general reserve and to declare a final dividend of 6%.

Required:

Prepare a manufacturing, trading and profit and loss account (with the section on appropriations) for the year ended 30 April 1994; and a balance sheet as at the same date. (20 marks)

1996 Q.7 Manufacturing + Ltd. Co.

Success Limited is a retailer of kitchenware. Most goods it trades are purchased from various suppliers in a finished form. In addition, the company manufactures several types of kettles.

The bookkeeper drew up the following trial balance at 30 April 1996:

		$	$
Ordinary share capital of $1 each			200,000
General reserve			23,000
Retained profits			164,600
15% long-term loan			120,000
Machinery	- at cost	400,000	
	- accumulated depreciation		100,000
Motor vehicles	- at cost	160,000	
Stock			
Raw materials		20,000	
Manufactured goods		10,000	
Other goods		170,000	
Debtors		160,000	
Creditors			48,000
Bank		50,000	
Sales			2,200,000
Purchases	- raw materials	430,000	
	- other goods	1,150,000	
Salaries		257,000	
Rent and rates		22,000	
Electricity		10,500	
Interest on loan		9,000	
Sundry expenses		7,100	
		2,855,600	2,855,600

The following information is also given:

(i) Depreciation is to be provided using the reducing-balance method at the following rates:

Motor vehicles - 12½% per annum
Machinery - 10% per annum

The motor vehicle was purchased in 1996. It is the company's policy to charge a full year's depreciation in the year of acquisition.

(ii) Salaries include wages of $54,000 paid to the kettle-making employees.

(iii) Rates prepaid at 30 April 1996 amounted to $2,000.

(iv) Accruals at 30 April 1996 were:

	$
Electricity	1,500
Interest on loan	9,000

(v) The apportionment of rent and rates and electricity to the kettle-making department is 25%.

(vi) Stocks at 30 April 1996 were:

	$
Raw material	40,000
Manufactured goods	12,500
Other goods	215,000

(vii) The directors proposed to transfer $40,000 of the profits to general reserve and to declare a final dividend of $0.50 per share.

Required to prepare:

(a) a manufacturing, trading and profit and loss account (with the section on appropriations) for the year ended 30 April 1996; and (13 marks)

(b) a balance sheet as at the same date. (7 marks)

1999 Q.9 (Amended) Manufacturing + Ltd. Co.

The following trial balance was extracted from the books of Rock Limited, a candy manufacturer, on 30 April 1999:

	$	$
Ordinary share capital of $1 each		240,000
General reserve		50,000
Retained profits		48,423
Machinery		
- at cost	873,800	
- accumulated depreciation		167,180
Motor vehicles		
- at cost	134,240	
- accumulated depreciation		74,280
Stocks		
Raw materials	165,300	
Work in progress	27,200	
Finished goods	72,910	
Debtors and creditors	127,500	83,920
Sales		2,186,400
Purchases of raw materials	936,440	
8% debentures (issued in 1990)		200,000
Bank	70,560	
Wages	60,790	
Salaries	240,680	
Rent and rates (3/5 office; 2/5 factory)	243,620	
Selling expenses	97,163	
	3,050,203	3,050,203

Additional information:

(i) Stock as at 30 April 1999:

	$
Raw materials	97,200
Work in progress	30,200
Finished goods	88,400

(ii) Depreciation was to be provided for:
Machinery - 20% on cost
Motor vehicles - 25% on net book value

(iii) Analysis of the wages figure revealed:

	$
Direct manufacturing	48,632
Factory maintenance	12,158

(iv) Accruals at 30 April 1999 were:

	$
Debenture interest	?
Rent	4,380

(v) The directors proposed to transfer $20,000 of the profits to general reserve and declare a final dividend of 30%.

Required to prepare:

(a) a manufacturing, trading and profit and loss account (with the section on appropriations) for the year ended 30 April 1999; and (11 marks)

(b) a balance sheet as at the same date. (9 marks)

2004 Q.6 Manufacturing + Ltd. Co.

The following trial balance was extracted from the books of Bella Garment Manufacturing Limited as at 31 March 2004:

	$	$
Ordinary shares of $2 each, fully paid		350,000
Machinery, at cost	854,000	
Furniture and fittings, at cost	125,700	
Provision for depreciation, 1 April 2003		
Machinery		332,000
Furniture and fittings		53,160
Sales		2,405,040
Stock, 1 April 2003		
Raw materials	101,270	
Work in progress	42,375	
Finished goods	136,458	
Trade debtors and trade creditors	198,400	90,824
Wages and salaries	488,616	
Purchase of raw materials	1,030,084	
Administrative expenses	175,432	
Selling and distribution expenses	90,855	
General reserve		110,000
8% loan (borrowed in 2001)		200,000
Loan interest	8,000	
Carriage inwards	18,692	
Cash at bank	59,678	
Retained profits, 1 April 2003		40,116
Ordinary dividend	17,500	
Provision for doubtful debts, 1 April 2003		5,920
Rent and rates (factory 2/3; office 1/3)	240,000	
	3,587,060	3,587,060

Additional information:

(i) Stock as at 31 March 2004:

	$
Raw materials	116,640
Work in progress	39,260
Finished goods (including a worthless and damaged item costing $50)	123,760

(ii) Depreciation was to be provided for:

Machinery	- 20% on net book value
Furniture and fittings	- 20% on cost

(iii) Analysis of the wages and salaries revealed:

	$
Direct labour	165,493
Indirect labour	65,000
Salaries to factory manager	108,000
Salaries of office staff	150,123
	488,616

(iv) Provision for doubtful debts was to be maintained at 5% of trade debtors.

(v) Half of the 8% loan is to be repaid on 31 August 2004. The remaining half is repayable on 30 April 2005.

(vi) The board of directors proposes to declare a final ordinary dividend of $0.15 per share and to transfer $100,000 of the retained profits to general reserve.

You are required to:

Prepare for Bella Garment Manufacturing Limited

(a) the manufacturing account for the year ended 31 March 2004, showing clearly the cost of raw materials consumed, the prime cost and the production cost of finished goods; (8 marks)

(b) the trading, profit and loss and appropriation account for the year ended 31 March 2004; and (11 marks)

(c) the balance sheet as at 31 March 2004. (10 marks)

2005 Q.5 Ltd. Co.

The following list of balances was extracted from the books of Hoho Limited at 31 March 2005:

	$
Stock, 1 April 2004	169,370
Office equipment, at cost	4,500,000
Bad debts	55,000
Purchases	3,353,422
Sales returns	50,588
Selling and distribution expenses	663,400
Carriage inwards	12,800
Wages and salaries	1,050,000
Rent and rates	922,240
Cash at bank	305,790
Interim dividend	80,000
Administrative expenses	895,650
Furniture and fittings, at cost	4,950,000
Trade debtors	916,750
Share issue	1,500,000
1,800,000 ordinary shares of $2 each, fully paid	3,600,000
Provision for depreciation, 1 April 2004	
Office equipment	937,500
Furniture and fittings	1,687,500
Sales	8,707,707
General reserve	157,500
Provision for doubtful debts, 1 April 2004	29,800
Trade creditors	862,300
Retained profits	249,803
Share premium	187,500

Additional information:

(i) Stock as at 31 March 2005 amounted to $175,075. It was discovered that a transposition error at 1 April 2004 had caused the opening stock to be overstated by $5,400.

(ii) A credit sale of $7200 had been recorded twice in the books.

(iii) At 31 March 2005, prepaid rates amounted to $8,900.

(iv) An invoice of $18,000, relating to fire insurance covering the period from 1 February 2005 to 31 January 2006, remained unpaid.

(v) A bad debt of $14,000, which was written off in November 2004, was recovered on 31 March 2005. No entry had yet been made in respect of this transaction. Provision for doubtful dents was to be maintained at 4% of trade debtors.

(vi) Depreciation was to be charged as follows:

Office equipment	- 15% on cost
Furniture and fittings	- 20% on net book value.

(vii) In January 2005, 500,000 ordinary shares were issued at $3 per share. The proceeds of the issue had been credited to the share issue account. The new shares were also entitled to the final dividend proposed for the year.

(viii) The board of directors proposed to transfer $100,000 to general reserve and declare a final dividend of $0.05 per share.

You are required to:

Prepare for Hoho Limited

(a) the trading, profit and loss and appropriation account for the year ended 31 March 2005; and (14 marks)

(b) the balance sheet as at 31 March 2005. (15 marks)

2006 Q.4 Issue of Shares

Ball Limited had an issued share capital consisting of 650,000 ordinary shares of $1 each as at 1 January 2005. On 1 July 2005, the company made an additional issue of 250,000 ordinary shares at $1.50 per share, payable in full on application. Applications were received for 260,000 shares on 8 July 2005. The shares were allotted to the successful applicants on 15 July 2005. Cash was returned to the unsuccessful applicants on the same day.

You are required to:

(a) Prepare journal entries for Ball Limited to record the share issue in July 2005. (Narrations are not required) (6 marks)

Limited Company Final Accounts

2007 Q.7

Bamboo Limited is engaged in the trading business. After preparing the adjusting entries, the bookkeeper extracted an adjusted trial balance as at 31 March 2007. However, he found that the debit and credit totals does not agree:

	$	$
Ordinary shares	180,000	
Retained profits, 1 April 2006	20,000	
Plant and equipment, at cost	692,460	
Bank loan, repayable in 2010	120,000	
Sales		985,000
Debtors	105,690	
Cost of goods sold		538,600
Administrative expenses		123,700
Selling expenses	187,500	
Interest on bank loan	5,000	
Deposits received from debtors		16,000
Share application money received	70,000	
Cash at bank	47,400	
Creditors	96,710	
Stock, 31 March 2007	22,100	
Prepaid selling expenses, 31 March 2007		8,000
Accumulated depreciation - plant and equipment, 31 March 2007	246,540	
	1,671,300	1,671,300

You are required to:

(a) Based on the items listed above, rewrite the adjusted trial balance as at 31 March 2007 for Bamboo Limited; (5 marks)

Subsequent checking of the records revealed the following errors and omissions:

(i) Interest income of $800 had been debited to the cash at bank account and the prepaid selling expenses account only.

(ii) Cash sales of $4,884 had been recorded as a cash settlement of $4,844 from debtors.

(iii) A payment of administrative expenses of $300 was recorded as a settlement of credit purchases.

(iv) Equipment repairs of $16,000, an administrative expense, had been recorded as $10,600 in the plant and equipment account. A full year's depreciation had been calculated at 20% on this amount and was included in administrative expenses.

(v) The closing stock had been undercast by $6,000.

(vi) $12,000 cash was received form a customer as the deposit for placing a purchase order. The cash had been used to pay an interim dividend to the shareholders. Both transactions were entirely omitted from the books.

(vii) In March 2007, 40,000 ordinary shares of the par value of $1 each were issued to the public at $1.40 each, payable in full on application. There was an over-subscription and the application money received had been correctly recorded. On 31 March 2007, the shares were allotted and at the same time, the excess application money was refunded to the unsuccessful applicants. No entries had been made for the allotment of shares and he refund.

You are required to:

(b) Prepared the necessary journal entries to correct the errors and omissions in (i) to (vii) above. (Narrations are not required.) (10 marks)

(c) Draw up the balance sheet of Bamboo Limited as at 31 March 2007 after the above corrections and the necessary closing entries had been made. (Note: Ignore the proposal of final dividend.) (14 marks)

2008 – Q5

The following trial balance was extracted from the books of Lulu Limited as at 31 December 2007:

	Debit $	Credit $
Furniture and equipment, at cost	4 900 000	
Stock, 1 January 2007	152 400	
Accumulated depreciation - furniture and equipment, 1 January 2007		643 000
Purchases	1 068 000	
Bad debts	49 800	
Sales returns	45 520	
Selling and distribution expenses	597 060	
Administrative expenses	106 000	
Carriage inwards	11 500	
Wages and salaries	545 000	
Rent and rates	230 000	
Dividend paid	85 500	
Cash at bank	303 720	
Trade debtors and trade creditors	1 225 000	708 000
Sales		3 837 000
Share issue		1 000 000
2 000 000 ordinary shares of$1 each, fully paid		2 000 000
5% debentures		600 000
Share premium		166 700
General reserve		140 000
Retained profits		224 800
	9 319 500	9 319 500

Additional information:

(i) Stock as at 31 December 2007 had a cost of $157 500. Minor defects were found in some goods that cost $8000. These goods had an estimated saleable value of $7900.

(ii) Trade debtors included an amount of $100 000 paid to a trade creditor as the deposit for future purchases of $500 000 of goods.

(iii) At 31 December 2007, prepaid rent and accrued salaries amounted to $2900 and $10 000 respectively.

(iv) No entry had yet been made in respect of an interest charge of $5000 receivable from a trade debtor for his overdue balance.

(v) Depreciation was to be provided for furniture and equipment at 20% of net book value

(vi) On 28 December 2007, 400 000 ordinary shares were issued at $2 per share. Subscription had been received for 500 000 shares. All subscription money had been credited to the share issue account. Excess subscriptions were refunded to unsuccessful applicants on 3 January 2008.

(vii) The board of directors proposed a transfer of $150 000 to the general reserve.

(viii) On 1 October 2007, $600 000 5% debentures were issued, interest being payable half-yearly on 31 March and 30 September.

REQUIRED:

Prepare the following in vertical form for Lulu Limited:

(a) the trading, profit and loss and appropriation account for the year ended 31 December 2007; and (14 marks)

(b) the balance sheet as at 31 December 2007. (15 marks)

Limited Company Final Accounts

2010 – Q5

The following trial balance was extracted from the books of Fatima Limited as at 31 December 2009:

	Debit	Credit
	$	$
Motor vehicles, at cost	1 300 000	
Office equipment, at cost	3 590 000	
Stock, 1 January 2009	182 200	
Accumulated depreciation - motor vehicles, 1 January 2009		420 000
Accumulated depreciation - office equipment, 1 January 2009		948 000
Disposal of assets		60 000
Share issue		704 000
Purchases	1 083 000	
Bad debts	57 680	
Sales returns	67 000	
Selling and distribution expenses	401 600	
Administrative expenses	264 200	
Carriage inwards	13 600	
Salaries	505 000	
Rent and rates	314 000	
Ordinary dividend	50 000	
Cash at bank	85 320	
Trade debtors	798 400	
5% bank fixed deposit	100 000	
Trade creditors		821 200
Sales		4 270 000
500 000 ordinary shares of $2 each, fully paid		1 000 000
Share premium		151 300
General reserve		140 000
Retained profits. 1 January 2009		207 500
	8 812 000	8 812 000

Additional information:

(i) Stock as at 31 December 2009 amounted to $204 350 which included defective goods of $10 000. As agreed, these goods were to be returned to the supplier. No entries had been made for this return.

(ii) Free samples were sent to a customer on 29 December 2009. This was recorded as a credit sale of $900.

(iii) A motor vehicle which was purchased on 1 January 2008 for $120 000 was sold on 30 November 2009 for $60 000 through an agent. The sales proceeds received had been debited to cash and credited to the disposal of assets account. No other entries had been made. A commission of 5% on the sales proceeds was to be paid to the agent on 3 January 2010.

(iv) Annual depreciation was to be charged as follows:
Motor vehicles - 20% on a reducing-balance basis
Office equipment - 25% on a straight-line basis

(v) At 31 December 2009, prepaid selling and distribution expenses and accrued administrative expenses amounted to $3600 and $5200 respectively.

(vi) The 5% bank fixed deposit was made on 1 July 2009 for a period of one year

(vii) The board of directors proposed to transfer $200 000 to general reserve

(viii) On 22 December 2009, 300 000 ordinary shares were issued at $2.20 per share. Subscriptions had been received for 320 000 shares. All subscription money had been credited to the share issue account. Excess subscriptions were to be refunded to unsuccessful applicants on 5 January 2010.

REQUIRED:

Prepare for Fatima Limited:

(a) the trading, profit and loss and appropriation account for the year ended 31 December 2009; and (14 marks)

(b) the balance sheet as at 31 December 2009. (15 marks)

1. PP.Q9 [Please attempt this question after you've learned incomplete records.]

BC Ltd was incorporated and commenced its business selling imported tiles on 1 January 2010. On the date of incorporation, the company issued 1 000 000 ordinary shares of $2 each at par. A four-year $1 000 000 bank loan with an interest rate of 6% per annum was obtained on the same date. The following information was available:

(i) The ratio of total non-current liability to total equity (based on the year-end balances) as at 31 December 2010 was 1:4. No dividends had been proposed or paid in 2010 and 2011.

(ii) Total sales for 2011 were $3 600 000. All goods were sold at a gross profit margin of 50%.

(iii) All sales and purchases were made on credit and were evenly spread throughout the year. In 2010 and 2011, the collection period of trade receivables was maintained at 1 month, while the settlement period of trade payables was maintained at 3 months.

(iv) Closing inventory as at 31 December 2010 and 2011 was valued at $500 000 and $1 100 000 respectively.

(v) Selling and distribution expenses of $645 000 incurred in 2011 were fully paid.

(vi) Administrative expenses of $270 000 were incurred in 2011, of which one-third remained unpaid as at 31 December 2011.

(vii) In order to finance the expansion of the business, the company further issued 1 000 000 ordinary shares at $5 per share on 1 January 2011 and obtained a five-year bank loan with an interest rate of 4% per annum on the same date. The ratio of total non-current liability to total equity decreased to 1:5 immediately after the issuance of shares and the acquisition of the bank loan. The interests on all the bank loans incurred in 2011 were duly paid and properly recorded.

(viii) On 1 January 2011, the company purchased a piece of equipment for $420 000. It is the company's policy to provide depreciation at an annual rate of 20% using the reducing balance method. The net book value of equipment as at 31 December 2010 was $480 000.

(ix) All transactions were made through the bank account of the business. On 31 December 2011, there was no cash in hand while the bank account showed a debit balance.

REQUIRED:

(a) Prepare for BC Ltd

(1) the income statement for the year ended 31 December 2011; and (6 marks)

(2) the statement of financial position as at 31 December 2011. (10 marks)

(b) As compared with 2010, many of the financial ratios of BC Ltd in 2011 had improved. Therefore, the Chief Executive Officer (CEO) of the company concluded that the performance of BC Ltd in 2011 was better. Give two reasons why the CEO's conclusion might be incorrect. Explain your answers. (4 marks)

2. 2012.Q9 [Modified]

After closing all the nominal accounts and preparing the draft income statement, the ledger balances of Dragon Ltd as at 31 December 2011 are as follows:

	Dr.	Cr.
	$	$
Ordinary share capital ~~$2 Ordinary shares, fully paid~~		4 319 000
~~Share premium~~		~~319 000~~
Retained profits as at 31 December 2011		996 500
Inventory as at 31 December 2011	545 000	
Property, plant and equipment		
- Cost	4 800 000	
- Accumulated depreciation as at 31 December 2011		1 240 000
Trade receivables and trade payables	716 400	691 500
Prepayment [note (vi)]	424 800	
Cash at bank	760 800	
	7 247 000	7 247 000

During the internal audit process, the following items were discovered:

(i) The management of the company decided to provide allowance for doubtful debts starting from 2011. An allowance of 5% on outstanding trade receivables should be provided for the year ended 31 December 2011, but no entries had been made in the books.

(ii) ~~To finance the expansion of the business, the authorised share capital of $5 000 000 was increased to $15 000 000 on 15 December 2011.~~

On 15 December 2011, 600 000 ordinary shares ~~of $2 each~~ had been issued at $6 each. All the monies subscribed had been received and shares had been allotted on 28 December 2011. However, no entries had been made in the books.

(iii) On 1 December 2011, a five-year 2% debenture of $900 000 in total had been issued at par. Debenture interest is payable on 31 March and 30 September each year. All the monies subscribed were duly collected. In order to obtain the cash discount of 4% from a supplier, one-quarter of the monies collected was used to pay the supplier during the discount period as the full settlement of its account. However, entries regarding all the above transactions were omitted from the books.

(iv) A piece of equipment with both cost and accumulated depreciation of $726 000 on 1 January 2011 was sold for $156 000 on the same date. The transaction was recorded in the books as cash sales of $165 000.

(v) On 31 December 2011, the board of directors of the company resolved to transfer $135 000 to the general reserve. However, no entries had been made in the books.

(vi) During the year 2011, advertising expenditure amounting to $424 800 had been incurred and paid. The company estimated that the sales volume could be increased by 5% and 15% in 2012 and 2013 respectively as a result of the advertising. The book-keeper had therefore recorded the payment for advertising as a prepayment in 2011, to be written off as expenses in 2012 and 2013.

REQUIRED:

(a) Prepare for Dragon Ltd

(1) The journal entries necessary for correcting the errors and the omission in (i) to (vi) above (narrations are not required); and (10 marks)

(2) The statement of financial position as at 31 December 2011 after taking into the account the above adjustments. (7 marks)

(b) Comment on the accounting treatment of advertising expenditure in term (vi). (3 marks)

(Total: 20 marks)

3. 2014.Q8 [Modified]

After preparing the necessary entries to calculate the cost of goods sold, the bookkeeper of Windy Company Limited prepared the trial balance as at 31 December 2013 as follows:

	Dr	Cr
	$	$
Ordinary share capital ~~$5 Ordinary Shares, fully paid~~		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
~~Share premium~~		~~209 500~~
Trade receivables and trade payables	381 600	363 100
	11 218 600	11 218 600

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 positon 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)

4. 2015.Q8

Before the preparation of the income statement, Nancy Company Limited has drafted the trial balance as at 31 December 2014 as follows:

	Dr	Cr
	$	$
Purchases and sales	890 000	1 380 000
Ordinary shares of $5 each, fully paid		1 200 000
Accumulated depreciation – office equipment, 1 January 2014		340 000
Trade receivables and trade payables	321 900	247 800
Retained profits, 1 January 2014		210 000
6% debentures		150 000
Cash at bank		42 000
Administrative expenses	345 000	
Inventory, 1 January 2014	156 000	
Office equipment	1 570 000	
Selling and distribution expenses	286 900	
	3 569 800	3 569 800

Additional information:

(i) It is the company's policy to depreciate its non-current assets on a straight-line basis at an annual rate of 10%. Depreciation expenses and loss on disposal are classified as administrative expenses.

(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.

(iii) On 1 July 2014, $150 000 6% debentures were issued, interest being payable half-yearly on 1 January and 1 July.

(iv) In December 2014, goods invoiced at $30 000 were sent to a customer on a sale-or-return basis. These had been recorded as credit sales for the year. As at 31 December 2014, 75% of these goods were accepted by the customer. The remaining 25% had been included in the closing inventory at cost.

(v) An invoice for selling expenses of $2000 was received but not yet recorded in the books.

(vi) Inventory as at 31 December 2014 had a cost of $290 000. 20% of the inventory was slightly damaged and had a net realizable value of $49 980.

(vii) On 31 December 2014, the board of directors resolved to transfer $100 000 to general reserve.

REQUIRED:

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

(b) Prepare for Nancy Company Limited the income statement for the year ended 31 December 2014 and the statement of financial position as at that date. (14 marks)

(c) Explain, with a relevant accounting principle or concept, the accounting treatment of (vi) above. (3 marks)

5. 2016.Q8

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
	2 389 400
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
	2 389 400

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)
	490 000

(v) The bank reconciliation statement as at 31 December 2015 showed that there were three unpresented cheques totalling $23 400 on that date. After further review, the bookkeeper discovered that one of the unpresented 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)

6. 2017.Q5(d)

(d) Explain two differences in terms of the right to dividends for ordinary shareholders and preference shareholders. (2 marks)

7. 2017.Q5

ABC Limited drafted a trial balance as at 31 December 2016, before the preparation of the closing entries. As the trial balance did not agree, a suspense account was opened.

Subsequent investigation revealed the following errors and omissions:

(i) Discounts allowed of $3400 had not been recorded in the books.

(ii) A cash sale of $28 050 to Pearl Limited was recorded in the sales journal as $28 500 and posted to the ledgers accordingly. No entry for the receipt was made in the books.

(iii) An invoice for credit purchase was overstated by $270.

(iv) Goods returned to a supplier for $440 were debited to both trade payables account and returns inwards account.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (5 marks)

On 31 December 2016, the following balances were extracted from the ledgers of ABC Limited, before recoding the adjustments in (a) above:

	$
Ordinary share capital	1 305 000
Preference share capital	760 000
Retained profits, 1 January 2016	10 000
Loans, repayable in June 2018	320 000

The draft net profit for the year ended 31 December 2016 was $7700. No dividends were declared for 2016.

REQUIRED:

(b) Prepare a statement to calculate the retained profits as at 31 December 2016, showing all necessary adjustments and the adjusted net profit for 2016. (4 marks)

(c) Calculate the gearing ratio of ABC Limited for 2016. (2 marks)

(d) Explain two differences in terms of the right to dividends for ordinary shareholders and preference shareholders. (2 marks)

(Total: 13 marks)

8. 2018.Q7

The following are the balances extracted from the books of KK Company Limited as at 31 December 2017:

	$
Equipment	2 020 000
Accumulated depreciation, equipment, 1 January 2017	1 060 000
Inventory, 1 January 2017	930 000
Sales	4 470 000
Returns inwards	60 000
Purchases	2 467 000
Operating expenses	757 000
General reserve	20 000
4% Debenture (Issued on 1 July 2017)	800 000
Retained profits, 1 January 2017	74 000

Additional information:

(i) In 2017, all sales were made at a mark-up of 50%.

(ii) 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 old equipment was purchased on 1 March 2015 at a cost of $50 000. The bookkeeper debited $62 000 in the equipment account and credited the same amount in the cash at bank account without making any other entries for the above trade-in arrangement.

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.

(iii) On 29 December 2017, the company received a purchase order from a customer for goods priced at $270 000. The bookkeeper recorded the order as credit sales for the year 2017, though the goods were to be delivered to the customer on 4 January 2018.

(iv) Operating expenses of $757 000 were paid during the year 2017, of which 45% were selling and distribution expenses while the rest were administrative expenses. Depreciation expenses, loss on disposal and directors' fees are classified as administrative expenses.

(v) Estimated profit tax of $12 500 for the year 2017 had not been recorded in the books. Besides, directors' fee of $130 000 for the year were to be paid in 2018.

(vi) On 31 December 2017, the board of directors resolved to increase the general reserve to $30 000.

(vii) Information on dividends for the years 2016 and 2017 is as follows:

Details	Declared and paid	$
2016 Final dividend	March 2017	48 000
2017 Interim dividend	September 2017	23 000
2017 Final dividend	March 2018	42 000

REQUIRED:

(a) Prepare for KK Company Limited,

(i) The income statement for the year ended 31 December 2017, showing all the necessary items including purchases, profits before tax and profit after tax. (10 marks)

(ii) a statement to calculate the retained profits as at 31 December 2017. (3 marks)

(b) Briefly explain, with a relevant accounting principle or concept, the accounting treatment of item (iii) above. (3 marks)

Having prepared the income statement, the directors of KK Company Limited have the following queries:

Director Ma: I was told that the depreciation policy could not be changed, otherwise the consistency principle would be violated. Is that right?

Director Lo: The balance of general reserve has been increasing over the past few years. Will this affect our ability to pay dividends?

REQUIRED:

(c) With reference to Director Ma's query, state two reasons for adopting the consistency principle when preparing the financial statements. (2 marks)

(d) With reference to Director Lo's query, explain whether the increase in the balance of the general reserve would affect the company's ability to pay dividends. (2 marks)

(Total: 20 marks)

9. 2018.Q8(A)

After the preparation of the income statement for the year ended 31 December 2017, Bright Company Limited had the following account balances:

	Dr $	Cr $
Retained profits, 31 December 2017		777 060
Share Capital		1 800 000
Trade payables		507 700
Accrued expenses		62 700
Motor vehicles, net	2 017 100	
Trade receivables, net	294 000	
Cash at bank	447 400	
Inventory	403 040	
Suspense (note iv)		14 080
	3 161 540	3 161 540

Additional information:

(i) Bad debts of $9 700 had not been recorded in the books.

(ii) The allowance for doubtful accounts, which had been provided at 2% on trade receivables, would be increased to 3% after a review of the economic environment.

(iii) On 31 December 2017, an invoice for a staff training programme of $80 000 for ten lessons was received and the amount was to be settled in January 2018. The first four lessons were conducted in December 2017 while the remaining lessons would be conducted in January 2018. No entries were made in the books to record the above.

(iv) The balance of suspense account related to an advance payment of management fees for January 2018. The bookkeeper wrongly debited the same amount both to the cash at bank account and the management fee account in 2017.

(v) 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. No entries were made in the books regarding the disposal except that the amount received was recorded as a cash sale.

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:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (8 marks)

(b) Prepare for Bright Company Limited the statement of financial position as at 31 December 2017. (8 marks)

10. 2019.Q4

Below is the trial balance of Tracy Limited as at 31 December 2018:

	Dr	Cr
	$	$
Ordinary share capital		2 465 000
Equipment	3 360 000	
Accumulated depreciation - equipment, 1 January 2018		1 160 000
Inventory, 1 January 2018	344 000	
Trade receivables and payables	136 000	292 000
Cash at bank	409 000	
Purchases and sales	2 130 000	3 254 000
Gain on disposal of short-term investments		134 000
Debenture interest	12 000	
Administrative expenses	408 370	
Selling and distribution expenses	475 750	
Retained profits, 1 January 2018		186 370
4% Debentures		600 000
Short-term investments	816 250	
	8 091 370	8 091 370

Additional information:

(i) The value of closing inventory as at 31 December was $445 000.

(ii) During the year, the company paid an insurance premium of $36 000 for the year ended 31 March 2019. The whole amount was included in administrative expenses.

(iii) An audit fee of $10 000 and directors' fee of $70 800 for 2018 were to be paid in 2019.

(iv) It is the company's policy to depreciate equipment using the straight-line method based on an estimated useful life of 10 years, and to classify the depreciation expenses, audit fee and directors' fees as administrative expenses.

(v) The 4% debentures were issued on 1 May 2018 and the maturity date is 30 April 2020. Debenture interest is payable half-yearly on 30 April and 31 October.

(vi) On 31 December 2018, the board of directors resolved to transfer $40 000 to general reserve.

REQUIRED:

(a) Prepare the income statement for the year ended 31 December 2018. (6 marks)

(b) Prepare the statement of financial position as at 31 December 2018. (7 marks)

(Total: 13 marks)

11. 2020.Q5 [Please attempt part (b) & (c) of this question after you've learned financial analysis (ratios).]

Johnny Limited's financial year ends on 31 December each year. Information for 2019 is as follows:

	$
Net profit after tax	80 200
Dividend declared and paid for 2019: Ordinary shares	13 500
Preference shares	8 000
<u>Balances as at 1 January 2019</u>	
Retained profits	210 000
General reserve	100 000
<u>Balances as at 31 December 2019</u>	
Current liabilities	129 580
3% Debenture, repayable in 2025	280 000
45 000 Ordinary share capital	900 000
20 000 4% Preference share capital	200 000
General reserve	100 000

REQUIRED:

(a) Prepare a statement to calculate the shareholders' funds as at 31 December 2019. (4 marks)

(b) Calculate (to two decimal places) the following ratios for 2019:

(i) Gearing ratio (2 marks)

(ii) Earnings per share (2 marks)

(iii) Dividend cover for ordinary shares (in times) (2 marks)

(c) Johnny Limited plans to raise $1 million by long-term financing without deteriorating its solvency. Suggest, with explanation, one financing method Johnny Limited should use. (2 marks)

(Total: 12 marks)

12. 2021.Q7

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

	$	$
Purchase and sales	2 736 000	4 080 000
Debenture interest	18 000	
Rent and rates	360 000	
Salaries	190 000	
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
Inventory, 1 January 2020	119 000	
Trade receivables and trade payables	1 577 000	598 000
2019 Final dividend	220 000	
2020 Interim dividend	150 000	
Retained profits, 1 January 2020		546 000
General reserves		150 000
8% Debentures (maturity date: 30 September 2021)		300 000
Application monies for ordinary shares		180 000
Ordinary share capital		1 400 000
	8 744 000	8 744 000

Additional information:

(i) Based on the inventory count, the value of the inventory as at 31 December 2020 was $135 000. It was discovered that some goods costing $32 000 had been damaged and could be sold for $26 200 only after having them repaired at $2 200 in January 2021.

(ii) In December 2020, goods invoiced at $45 000 were sent to a customer on a sale-or-return basis. These goods had been marked up at 50% and recorded as credit sales. On 31 December 2020, the customer confirmed to accept 70% of these goods and return the rest in January 2021, but no adjustment had been made in the books for this.

(iii) 100 samples were received free of charge from a supplier for promoting a new product. The samples had been recorded as a credit purchase and included in the closing inventory at the supplier's list price of $70 each.

(iv) With reference to the bank statement of December 2020, it was found that a credit transfer of $36 500 from a customer to settle his account had not yet been recorded.

(v) 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.

(vi) The debenture interest is payable on 31 March and 30 September every year.

(vii) On 15 December 2020, application monies of 120 000 shares for the issue of 100 000 ordinary shares at $1.50 each were received. The shares had been alloted on 31 December 2020 but no entries were made for this. The excess application monies were refunded on 6 January 2021.

(viii) On 31 December 2020, the board of directors resolved to transfer $100 000 to the general reserve.

REQUIRED:

(a) Prepare for Holly Limited:

(1) an income statement for the year ended 31 December 2020. (8 marks)

(2) a statement to calculate the retained profits as at 31 December 2020. (3 marks)

(3) a statement of financial position as at 31 December 2020. (7 marks)

(b) In January 2021, Holly Limited declared a final dividend for 2020. Explain whether the company should record the final dividend as a liability of 2020. (2 marks)

HKCEE Questions

Note:

A. If you see the item "Share Premium" in the answer, add that amount to "Ordinary Share Capital" and compare the total amount with your answer.

B. "Authorized capital" is out-of-syllabus. Ignore this term in the answers.

C. "Proposed dividend" is now classified as an equity item under "Shareholders' funds and reserves". However, in older questions (before CE2005), it was listed under current liabilities due to changes in accounting standard requirements.

1. 2000.Q3

(a) Total amount of authorised share capital 1½
= 500 000 × $2.50 + 50 000 × $10
= $1 750 000

Note: Part (a) is out-of DSE syllabus.

(b) Total amount of paid-up preference share capital
= 19 000 × $10
= $190 000

(c) Total amount of issued share capital 1
= $190 000 + $1 000 000
= $1 190 000

(d) Number of ordinary shares issued 1½
= $1 000 000 ÷ $2.50
= 400 000 shares

(e) Annual preference dividend 1
= $190 000 × 8%
= $15 200

(f) Average issue price of an ordinary share 2
= ($1 000 000 + $600 000) ÷ 400 000
= $4

(g) Ordinary dividend declared 2
*($590 000 + $250 000 – $15 200 –$720 800)
= $104 000

Total: 10 marks

2. 2003.Q4

(a)

(i) **Fixed assets, 1 January 2001:**

$180 000 – $45 000 = $135 000 1

(ii) **Current liabilities, 1 January 2001:**

$45 000 ÷ 3 = $15 000 1

(iii) **Shareholders' fund, 1 January 2001:**

$180 000 – $57 000* – $15 000 = $108 000 1½

(iv) **Current assets, 31 December 2001:**

$213 000 – $153 000 = $60 000 1

(v) **Current liabilities, 31 December 2001:**

$60 000 – [($45 000 – $15 000) + $9000] = $21 000 2

(vi) **Dividend for the year 2001:**

$40 000 – $20 000 – $7000 = $13 000 1½

(8)

(b)

Journal

Date	Details	Debit	Credit	
2002		$	$	
Jan 15	Bank (220 000 x $1.80)	396 000		0.5
	Share application – ordinary shares		396 000	0.5
Jan 15	Share application – ordinary shares	36 000		0.5
	Bank (20 000 x $1.80)		36 000	0.5
Jan 15	Share application – ordinary shares	360 000		0.5
	Ordinary Share Capital		360 000	1
July 1	Bank ($600 000 x 98%)	588 000		0.5
	Debenture interest	12 000		0.5
	5% debentures		600 000	0.5
Dec 31	Debenture interest (600 000 x 5% x 1/2)	15 000		0.5
	Bank		15 000	0.5

Debenture issued at discount (<100) is out-of DSE syllabus.

(6)

Note: Dates are required. Add "share premium" to "Ordinary share capital" to check your answers.

3. 1992S.Q8

(a) Happy Ltd.

Trading and Profit and Loss Account for the year ended 31 December 1991

	$	$
Sales (197,000 + 62,500)		259,500
Less: Cost of sales:		
Purchases (208,000 + 800)	208,800	
Less: Closing stock	14,175	194,625
Gross profit (259,500 × 25%)		64,875
Discounts received		3,000
		67,875
Less: Salaries (10,000 + 400 + 1,000)	11,400	
Rent and rates (20,500 – 500)	20,000	
Insurance	400	
General expenses (1,000 + 700)	1,700	
Discounts allowed	2,000	
Debentures interest (100,000 × 10% × 1/2)	5,000	
Depreciation - Fixtures (80,000 × 25%)	20,000	60,500
Net profit		7,375

Workings:

(W1) Trade Debtors

1991	$	1991	$
Sales (Difference)	197,000	Bank	170,000
		Discounts allowed	2,000
		Bal c/d	25,000
	197,000		197,000

(W2) Trade Creditors

1991	$	1991	$
Bank	190,000	Purchases (Difference)	208,000
Discounts received	3,000		
Bal c/d	15,000		
	208,000		208,000

(W3) Bank

	$		$
Issues of shares	140,000	Purchase of fixtures	80,000
Issues of 10% debentures	100,000	Trade creditors	190,000
Credit sales	170,000	Salaries	10,000
Cash sales	60,000	Rent and rates	20,500
		Insurance	400
		General expenses	1,000
		Bal c/d	168,100
	470,000		470,000

(b) Happy Ltd

Balance Sheet a at 31 December 1991

	$	$	$
Fixed Assets			
Fixtures, at cost			80,000
Less: Provision for depreciation			20,000
			60,000
Current Assets			
Stock		14,175	
Trade debtors		25,000	
Prepaid rates		500	
Bank (W3)		168,100	
		207,775	
Less: Current Liabilities:			
Creditors	15,000		
Accrued debenture interest	5,000		
Accrued salaries	400	20,400	
Working capital:			187,375
			247,375
Financed by:			
Share Capital:			
Authorized, issued and fully paid share capital		100,000	
Reserves:			
Share premium	40,000		
Profit and loss account	7,375	47,375	
		147,375	
Long-term Liabilities:			
10% debentures		100,000	
		247,375	

4. 1993.Q7 (Amended)

(a)

Sunrise Ltd.
Trading and Profit and Loss and Appropriation A/C
for the year ended 30 June 1992

	$	$	$
Sales			1,321,500
Less: Cost of goods sold			
Opening stock		93,000	
Add: Purchases		487,000	
		580,000	
Less: Closing stock		85,000	495,000
Gross profit			826,500
Add: Discounts received		9,800	
Provision for bad debts (4800 – (79000×5%))		850	
Profit on consignment (W1)		19,000	29,650
			856,150
Less: Expenses			
Wages and salaries		43,000	
Discounts allowed		10,500	
Sundry expenses		9,700	
Rent and rates (37,300 – 21,000 × 2/3)		23,300	
Provision for depreciation:			
Land and buildings (2,000,000 × 8%)		160,000	
Plant and machinery (1,780,000 × 15%)		267,000	
Salary of managing director (856150–513500)×1/11		31,150	544,650
Net profit:			311,500

Add: Unappropriated profit b/d			25,900
			337,400
Less: Transfer to fixed assets replacement reserves (28,000–20,000)		8,000	
Preference share dividends			
Interim paid	100,000		
Unpaid (1,600,000 ×8.5% –100,000)	36,000	136,000	
Ordinary share dividends			
Interim paid	90,000		
Final and proposed (1,000,000 × 5%)	50,000	140,000	284,000
Unappropriated profit c/d			53,400

Note: Ignore Consignment.

(b)

Sunrise Ltd.
Balance Sheet as at 30 June 1992

		Cost	Accumulated Depreciation	Net Book Value
Fixed Assets				
Land and buildings		2,000,000	488,000	1,512,000
Plant and machinery		1,780,000	837,000	943,000
		3,780,000	1,325,000	2,455,000
Current Assets				
Stock			85,000	
Debtors		79,000		
Less: Provision for bad debts		3,950	75,050	
Prepaid expenses (21,000 × 2/3)			14,000	
Bank (177,100 + 39,000) (W2)			216,100	
			390,150	
Less: Current Liabilities				
Creditors		34,000		
Accrued salary		31,150		
Accrued dividends (36,000 + 50,000)		86,000	151,150	
Working Capital				239,000
				2,694,000

Financed by:

Authorized Share Capital		
1,000,000 8.5% preference shares of $2.00 each		2,000,000
1,500,000 ordinary shares of $1.00 each		1,500,000
		3,500,000
Issued Share Capital		
800,000 8.5% preference shares, fully paid		1,600,000
1,000,000 ordinary shares, fully paid		1,000,000
		2,600,000
Reserves		
Fixed assets replacement reserves	28,000	
Share premium	12,600	
Unappropriated profit	53,400	94,000
Shareholders' fund		2,694,000

5. 1995.Q7

Trading, profit and loss and appropriation account
for the year ended 31 March 1995

		$	$	
Sales			2 875 000	½
Less:	Cost of goods sold			
	Opening stock	215 000		½
	Purchases	1 735 000		½
		1 950 000		
	Less: Closing stock	350 000	1 600 000	½
Gross profit			1 275 000	
Add:	Discount received		1 950	½
			1 276 950	
Less:	Discounts allowed	2 700		½
	Administration expenses	98 000		½
	Sundry expenses	25 600		½
	Rent and rates	147 000		½
	Wages and salaries	261 000		½
	Debenture interest	36 000 ✓		½
	Bad debts	18 400		½
	Provision for doubtful debts	5 250		½
	Provision for depreciation:			
	Office equipment	100 000		½
	Furniture and fittings	79 475	773 425	½
Net profit for the year			503 525	
Add:	Retained profit brought forward		153 000	½
			656 525	
Less:	Appropriations:			
	Transfer to general reserve	80 000		½
	Preference dividend	25 000		½
	Ordinary dividend	60 000	165 000	½
Retained profit carried forward			491 525	½
				(10)

(b)

Balance sheet as at 31 March 1995

	Cost	Depreciation		
	$	$	$	
Fixed assets				
Office equipment	1 000 000	475 000	525 000	½
Furniture and fittings	900 000	184 725	715 275	½
	1 900 000	659 725	1 240 275	
Current assets				
Stock		350 000		½
Debtors	525 000			
Less: Provision for doubtful debts	10 500	514 500		1
Prepayments		3 000		½
Cash at bank		518 900		½
		1 386 400		
Less: **Current liabilities**				
Creditors	327 150			½
Accruals	4 000			½
Proposed dividend	55 000	386 150		½
Working capital			1 000 250	
			2 240 525	
Financed by:				
Issued share capital				
1 000 000 ordinary shares of $1 each, fully paid			✓ 1 000 000	1
250 000 10% preference shares of $1 each, fully paid			250 000	½
			1 250 000	
Reserves				
Share premium (24000 + 0.3 x 200 000)		✓ 84 000		1
General reserve		✓ 115 000		1
Retained profit		✓ 491 525	690 525	½
Shareholders' fund			1 940 525	
Long term liabilities				
12% debentures			300 000	½
			2 240 525	(10)

6. 1997.Q7

(a)

Linda Limited
Trading, profit and loss and appropriation account
for the year ended 31 March 1997

		$	$	
Sales			2 945 000	½
Less:	Cost of goods sold			
	Opening stock	17 060		½
	Purchases	1 694 000		½
	Carriage inwards	5 600		½
		1 716 660		
	Less: Closing stock	24 180	1 692 480	½
Gross profit			1 252 520	
Add:	Discounts received		2 560	½
			1 255 080	

Less:	Wages and salaries (320 000 + 5 000)	325 000		½
	Rent and rates (365 000 – 6 000)	359 000		½
	Sundry expenses	17 210		½
	Bad debts	7 800		½
	Provision for doubtful debts [(480 600 × 3%) – 12 404]	2 014		½
	Debenture interest [(100 000 × 10%) + 60 000 × 10% × 1/12]	10 500		½
	Provision for depreciation:			
	Plant and machinery	170 000		½
	Furniture and fittings	40 500	932 024	½
Net profit for the year			323 056	
Less:	Appropriations:			
	Transfer to general reserve	100 000		½
	Preference dividend (500 000 × 8%) Interim 18,000	40 000		½
	Ordinary dividend (20 000 + 500 000 × 5%) Final 22,000	45 000	185 000	½
Retained profits carried forward	interim final		262 421	(9)

(b)

Linda Limited
Balance sheet as at 31 March 1997

	$ Cost	$ Depreciation	$	
Fixed assets				
Plant and machinery	1 700 000	520 000	1 180 000	1
Furniture and fittings	420 000	190 500	229 500	1
	2 120 000	710 500	1 409 500	
Current assets				
Stock		24 180		½
Debtors	480 600			
Less: Provision for doubtful debts	14 418	466 182		1
Prepayments		6 000		½
Cash at bank		271 931		½
		768 293		
Less: Current liabilities				
Creditors	383 272			½
Accruals (5000 + 5500)	10 500			1
Proposed dividend (22 000 + 25 000)	47 000	440 772		1
Working capital			327 521	
			*	
			1 737 021	
Financed by:				
Issued share capital				
600 000 ordinary shares of $1 each, fully paid			600 000	½
500 000 8% preference shares of $1 each, fully paid			500 000	½
			1 100 000	
Reserves				
Share premium [(50 000 + 100 000 × 0.25) – 60 000 × 0.04]		72 600 *		1
General reserve (42 000 + 100 000)		142 000		½
Retained profits		262 421 *	477 021	½
Shareholders' fund			1 577 021	

Long term liabilities		
10% debentures (100 000 + 60 000)	160 000	1
	1 737 021	
		(11)

* **Alternative answers:**

(1) ***if the discounts are to be written over the life of debentures***

Discount on debentures	$2400	½
Share premium	$75 000	½

(2) ***if the discounts are written off against profits***

Share premium	$75 000	½
Retained profits	260 021	1

Note: Amortization of discount of debentures, issuing debentures at discount is now out-of-syllabus.

7. 2000.Q8

(a)

Moon Limited
Trading, profit and loss and appropriation account
for the year ended 31 March 2000

	$	$	$	
Sales			2 954 300	½
Less: Sales returns			20 000	½
		net sales	2 934 300	
Less: Cost of goods sold				
Opening stock		26 410		½
Purchases	1 716 600			½
Carriage inwards ($6000 + 400)	6 400			½
	1 723 000			
Less: Purchases returns	9 000	1 714 000		½
		1 740 410		
Less: Closing stock		28 500	1 711 910	½
Gross profit			1 222 390	
Less: Loan interest ($200 000×10%)		20 000		½
Debenture interest ($300 000×9%)		27 000		½
Bad debts		4 000		½
Provision for doubtful debts [($364600–2200–4000)×3%–5400]		5 352		1
Directors' fees		35 000		½
Administration expenses ($409 150 – 9600)		399 550		½
Selling and distribution expenses		205 450		½
Provision for depreciation:				
Furniture and fittings [($1 500 000–427 000) × 10%]		107 300		½
Motor vehicles ($500 000 × 20%)		100 000	903 652	½
Net profit for the year			318 738	
Add: Retained profits brought forward			93 600	½
			412 338	
Less: Appropriations:				
Transfer to general reserve		85 000		½
Ordinary dividend ($20 000 + 1 200 000 × $0.05)		80 000	165 000	½
Retained profits carried forward			247 338	(10)

Moon Limited
Balance sheet as at 31 March 2000

	Cost $	Depreciation $	NBV $	
Fixed assets				
Furniture and fittings	1 500 000	534 300	965 700	½
Motor vehicles	500 000	218 000	282 000	½
net b/f o.k. (no adjustment)	2 000 000	752 300	1 247 700	
Discount on debentures * ($300 000 × 2% × 2/3)			4 000	½
Current assets				
Stock		28 500		½
Trade debtors ($364 600 – 2200 – 4000)	358 400			1
Less: Provision for doubtful debts	10 752	347 648		½
Prepayment		9 600		½
Cash at bank		333 290		½
		719 038		
Less: Current liabilities				
Creditors ($241 200 – 2200)	239 000			½
Accruals ($400 + 35 000 + 5000 + 27 000)	67 400			1
Proposed dividend	60 000	366 400		½
Working capital			352 638	
			1 604 338	
Financed by:				
Issued share capital				
1 200 000 ordinary shares of $0.50 each, fully paid			600 000	½
Reserves				
Share premium ($401 000 – 300 000×98% – 300 000×2%×1/3)		105 000		1
General reserve ($67 000 + 85 000)		152 000		½
Retained profits		247 338	504 338	½
Shareholders' fund			1 104 338	
Long-term liabilities				
9% debentures		300 000		½
10% loan		200 000	500 000	½
			1 604 338	(10)

* *Discount on debentures can be shown as a contra-liability to be deducted from the 9% debentures*

Long-term liabilities		
9% debentures	*300 000*	
Less: Discount on debentures	*4 000*	*296 000*

Note: Amortization of discount of debentures, issuing debentures at discount is now out-of-syllabus.

8. 2001.Q7

(a)

Kelly Limited
Trading, profit and loss and appropriation account for the year ended 31 March 2001

	$	$	
Sales ($3 108 800 – 1 200)		3 107 600	½
Less: Cost of goods sold			
Opening stock	31 270		½
Purchases	1 868 200		½
	1 899 470		
Less: Closing stock	36 420	1 863 050	½
Gross profit		1 244 550	
Less: Administration expenses ($439 400 + 6400)	445 800		½
Selling and distribution expenses ($171 562 – 3900)	167 662		½
Provision for depreciation:			
Office premises ($4 000 000 × 2%)	80 000		½
Office equipment [($640000–280000)–($5000 –2000)]×20%	71 400		1
Debenture interests ($800 000 × 8% × 9/12)	48 000		1
Bad debts	12 205		½
Provision for doubtful debts [($125 000 × 5%) – 4250]	2 000		1
Loss on disposal of office equipment ($5000–2000–1200)	1 800	828 867	1
Net profit for the year		415 683	
Add: Retained profits brought forward		448 365	½
		864 048	
Less: Appropriations:			
Transfer to general reserve	120 000		½
Ordinary dividend ($100 000 + 500 000 × $0.30)	250 000	370 000	1
Retained profits carried forward		494 048	
			(10)

(b)

Kelly Limited
Balance sheet as at 31 March 2001

	Cost $	Depreciation $	NBV $	
Fixed Assets				
Office premises	4 000 000	2 060 000	1 940 000	1
Office equipment	635 000	349 400	285 600	1
	4 635 000	2 409 400	2 225 600	
Current Assets				
Stock		36 420		½
Debtors	125 000			½
Less: Provision for doubtful debts	6 250	118 750		½
Prepayments		3 900		½
Cash at bank		408 853		½
		567 923		
Less: Current Liabilities				
Creditors	87 400			½
Accruals ($6 400 + 16 000)	22 400			1
Proposed dividend	150 000	259 800		½
Working capital			308 123	
			2 533 723	

Financed by:			
Issued Share Capital			
500 000 ordinary shares of $2 each, fully paid		1 000 000	1
Reserves			
Share premium ($45 000 + 25 000)	70 000		1
General reserve ($49 675 + 120 000)	169 675		½
Retained profits	494 048	733 723	½
		1 733 723	
Long-term Liabilities			
8% debentures		800 000	½
		2 533 723	
			(10)

9. 2002.Q6

(a)

Star Limited

Trading, profit and loss and appropriation account for the year ended 31 March 2002 ½

	$	$	$	
Sales (6 062 500 – 6000)			6 056 500	1 or 0
Less: Sales returns			33 725	½
			6 022 775	
Less: Cost of goods sold				
Opening stock		42 650		½
Purchases	2 235 614			½
Carriage inwards	8 400	2 244 014		½
		2 286 664		
Less: Closing stock		48 050	2 238 614	½
Gross profit			3 784 161	½
Profit on disposal of office equipment			6 000	½
			3 790 161	
Less: Loan interest (750 000 × 8%)		60 000		1 or 0
Wages and salaries (800 000 + 10 600)		810 600		1 or 0
Bad debts		85 000		1 or 0
Provision for bad debts [(910 500–85 000)× 3% – 19 865]		4 900		1
Rent and rates (768 450 – 3 900)		764 550		1 or 0
Administration expenses		597 100		½
Selling and distribution expenses		442 300		½
Provision for depreciation				
Office equipment [(3 000 000 – 92 000) × 10%]		290 800		1 or 0
Furniture and fittings [(3 300 000 – 1 125 000)× 20%]		435 000	3 490 250	1 or 0
Net profit for the year			299 911	½
Add: Retained profits brought forward			310 912	½
			610 823	
Less: Appropriations:				
Transfer to general reserve		150 000		½
Ordinary dividend (60 000 + 120 000) → interim 60000		180 000	330 000	1
Retained profits carried forward → final 120000			280 823	½
				(16)

(b)

Star Limited

Balance sheet as at 31 March 2002 ½

	$	$	$	
Fixed assets	**Cost**	**Depreciation**	**Net**	
Office equipment	2 908 000	823 800	2 084 200	1
Furniture and fittings	3 300 000	1 560 000	1 740 000	1
	6 208 000	2 383 800	3 824 200	
Current assets				
Stock		48 050		½
Trade debtors (910 500 – 85 000)	825 500			1 or 0
Less: Provision for doubtful debts	24 765	800 735		1
Prepayments		3 900		1 or 0
Cash at bank		69 446		½
		922 131		
Less: **Current liabilities**				
Creditors 0.5 0.5	574 908			½
Accruals (30 000 + 10 600)	40 600			1
Proposed dividend*	120 000	735 508		1 or 0
Working capital			186 623	
			4 010 823	
Financed by:				
Shareholders' fund				
Share capital				
4 000 000 ordinary shares of $0.50 each, fully paid			2 000 000	1 or 0
Reserves				
Share premium (125 000 + 600 000)		725 000		1 or 0
General reserve (105 000 + 150 000)		255 000		1 or 0
Retained profits		280 823	1 260 823	½
			3 260 823	
Long-term liabilities				
8% loan			750 000	½
			4 010 823	
				(13)

Total: 29 marks

* Proposed dividend should be classified under 'Reserves' following 2017 (or onwards) syllabus.

10. 1994.Q7 [involve manufacturing account, out-of-syllabus]
11. 1999.Q9 (amended) [involve manufacturing account, out-of-syllabus]
12. 2004.Q6 [involve manufacturing account, out-of-syllabus]

13. 2005.Q5

(a)

Hoho Limited

Trading and profit and loss and appropriation accounts for the year ended 31 March 2005 ½

			$	$	
Sales ($8 707 707 – $7 200)				8 700 507	1
Less: Sales returns				50 588	½
				8 649 919	
Less: Cost of goods sold					
Opening stock ($169 370 – $5400)			163 970		1
Add: Purchases		3 353 422			½
Carriage inwards		12 800	3 366 222		½
			3 530 192		
Less: Closing stock			175 075	3 355 117	½
Gross profit				5 294 802	
Less: Expenses					
Bad debts ($55 000 – $14 000)			41 000		1
Selling and distribution expenses			663 400		½
Wages and salaries			1 050 000		½
Rents and rates ($922 240 – $8 900)			913 340		1
Administrative expenses			895 650		½
Insurance ($18 000 × 2/12)			3 000		1
Provision for doubtful debts [($916 750 – $7200) × 4% – $29 800]			6 582		1
Provision for depreciation					
Office equipment ($4 500 000 × 15%)			675 000		1
Furniture and fittings [($4 950 000 – $1 687 500) × 20%]			652 500	4 900 472	1
Net profit				394 330	
Less: Appropriations					
Transfer to general reserve			100 000		½
Ordinary dividend – paid			80 000		½
– proposed (2 300 000 × $0.05)			115 000	295 000	1
Retained profits for the year				99 330	
Retained profits brought forward				249 803	½
Retained profits carried forward				349 133	½
					(15)

(b)

Hoho Limited

Balance sheet as at 31 March 2005 ½

	$	$	$		
Fixed assets	Cost	Depreciation	Net		
Office equipment	4 500 000	1 612 500	2 887 500		1½
Furniture and fittings	4 950 000	2 340 000	2 610 000		1½
	9 450 000	3 952 500	5 497 500		

Current assets				
Stock		175 075		½
Trade debtors ($916 750 – $7200)	909 550			1
Less: Provision for doubtful debts ($909 550×4%)	36 382	873 168		1
Prepaid rates		8 900		1
Cash at bank ($305 790 + $14 000)		319 790		1
		1 376 933		
Less: Current liabilities				
Trade creditors	862 300			½
Accruals	3 000	865 300		1
Working capital			511 633	
			6 009 133	
Financed by:				
Share capital				
2 300 000 Ordinary shares of $2 each, fully paid			4 600 000	1
Reserves				
Share premium ($187 500 + $500 000)		687 500		1
General reserve ($157 500 + $100 000)		257 500		1
Retained profit		349 133		½
Proposed dividend		115 000	1 409 133	1
Shareholders' fund			6 009 133	(14)

14. 2007.Q7 [Correction of error + Final accounts]

(a)

Bamboo Limited

Adjusted trial balance as at 31 March 2007 ½

	Debit $	Credit $	
Ordinary share capital, 1 April 2006		180 000	} ½
Retained profits, 1 April 2006		20 000	}
Plant and equipment, at cost	692 460		} ½
Bank loan, repayable in 2010		120 000	}
Sales		985 000	} ½
Debtors	105 690		}
Cost of goods sold	538 600		} ½
Administrative expenses	123 700		}
Selling expenses	187 500		} ½
Interest on bank loan	5 000		}
Deposits received from debtors		16 000	} ½
Share application money received		70 000	}
Cash at bank	47 400		} ½
Creditors		96 710	}
Stock, 31 March 2007	22 100		} ½
Prepaid selling expenses, 31 March 2007	8 000		}
Accumulated depreciation – plant and equipment, 31 March 2007		246 540	} ½
Suspense	3 800		}
	1 734 250	1 734 250	

(5)

(b)

Journal

	Details	Debit $	Credit $	
(i)	Suspense	1 600		0.5
	Interest income		800	0.5
	Prepaid selling expenses		800	0.5
(ii)	Bank (Cash)	40		0.5
	Debtors	4 844		0.5
	Sales		4 884	0.5
(iii)	Administrative expenses	300		0.5
	Creditors		300	0.5
(iv)	Administrative expenses	16 000		0.5
	Plant and equipment		10 600	0.5
	Suspense		5 400	0.5
	Accumulated depreciation – plant and equipment	2 120		0.5
	Administrative expenses ($10 600 x 20%)		2 120	
(v)	Stock	6 000		0.5
	Cost of goods sold		6 000	0.5
(vi)	Interim dividend	12 000		0.5
	Deposits received from debtors		12 000	0.5
(vii)	Share application money	70 000		0.5
	Ordinary Share Capital ($1.4 x 40 000)		56 000	0.5
	Bank ($1.4 x 10 000)		14 000	0.5

(10)

(c)

Bamboo Limited

Statement of Financial Position as at 31 March 2007

	$	$	
ASSETS			
Non-current assets			
Plant and equipment (692 460 – 10 600)		681 860	1
Less: Accumulated depreciation (246 540 – 2120)		244 420	1
		437 440	
Current assets			
Stock (22 100 + 6000)	28 100		1
Debtors (105 690 + 4844)	110 534		1
Prepaid selling expenses (8000 – 800)	7 200		1
Cash at bank (47 400 + 40 – 14 000)	33 440	179 274	1
Total assets		616 714	
EQUITY AND LIABILITIES			
Equity			
Ordinary Share Capital (180 000 + 56 000)		236 000	1.5
Retained profits (*workings*)		135 704	4
		371 704	
Non-current liabilities			
Bank Loan		120 000	0.5
Current liabilities			
Creditors (96 710 + 300)	97 010		1
Deposits received from debtors (16 000 + 12 000)	28 000	125 010	1
		616 714	

(14)

Workings:

	$	
Sales (985 000 + 4884)	989 884	0.5
Cost of goods sold (538 600 – 6000)	(532 600)	0.5
Gross profit	457 284	
Interest income	800	0.5
Administrative expenses (123 700 + 16 000 – 2120 + 300)	(137 880)	0.5
Selling expenses	(187 500)	0.5
Interest on bank loan	(5 000)	0.5
Net profit for the year	127 704	
Retained profits as at 1 April 2006	20 000	0.5
Interim dividend	(12 000)	0.5
Retained profits as at 31 March 2007	135 704	

15. 2008.Q5

(a)

Lulu Limited
Trading and profit and loss and appropriation account
for the year ended 31 December 2007 ½

	$	$	$	
Sales			3 837 000	½
Less: Sales returns			45 520	½
			3 791 480	
Less: Cost of goods sold				
Opening stock		152 400		½
Add: Purchases	1 068 000			½
Carriage inwards	11 500	1 079 500		½
		1 231 900		
Less: Closing stock				
[$157 500 – $100]		157 400	1 074 500	1
Gross profit			2 716 980	
Interest income			5 000	1
			2 721 980	
Less: Expenses				
Bad debts		49 800		½
Selling and distribution expenses		597 060		½
Administrative expenses		106 000		½
Wages and salaries ($545 000 + $10 000)		555 000		1
Rent and rates ($230 000 – $2900)		227 100		1
Debenture interest ($600 000 × 5% × 3/12)		7 500		1½
Depreciation – furniture and equipment				
[($4 900 000 – $643 000) × 20%]		851 400	2 393 860	1
Net profit			328 120	
Less: Appropriations				
Transfer to general reserve		150 000		½
Dividend paid		85 500	235 500	½
Retained profit for the year			92 620	1

Vertical form 1

(14)

(b)

Lulu Limited
Balance sheet as at 31 December 2007 ½

	$	$	$	
Fixed Assets				
Furniture and equipment			4 900 000	½
Less: Accumulated depreciation ($643 000 + $851 400)			1 494 400	1
			3 405 600	

	$	$	$	
Current Assets				
Stock		157 400		½
Trade debtors ($1 225 000 – $100 000 + $5000)		1 130 000		2
Deposit on future purchases		100 000		1
Prepaid expenses		2 900		½
Cash at bank		303 720		½
		1 694 020		
Less: **Current Liabilities**				
Trade creditors	708 000			½
Accrued expenses	10 000			½
Interest payable	7 500			1
Shares subscription refundable				
($1 000 000 – $800 000)	200 000	925 500		1
Working capital			768 520	
			4 174 120	
Financed by:				
Share Capital				
2 400 000 ordinary shares of $1 each, fully paid			2 400 000	1
Reserves				
Share premium ($166 700 + $400 000 × $1)		566 700		1
General reserve ($140 000 + $150 000)		290 000		1
Retained profits ($92 620 + $224 800)		317 420	1 174 120	1
Shareholders' fund			3 574 120	
Long-term liabilities				
5% Debentures			600 000	½
			4 174 120	

Vertical form 1

(15)

16. 2010.Q5

Fatima Limited
Trading and profit and loss and appropriation account
for the year ended 31 December 2009 ½

	$	$	
Sales ($4 270 000 – $900)		4 269 100	1
Less: Sales returns		67 000	½
		4 202 100	
Less: Cost of goods sold			
Opening stock	182 200		½
Add: Purchases	1 083 000		½
Carriage inwards	13 600		½
	1 278 800		
Less: Purchases returns	10 000		½
	1 268 800		
Less: Closing stock ($204 350 – $10 000)	194 350	1 074 450	1
Gross profit		3 127 650	
Interest income		2 500	1
		3 130 150	
Less: Expenses			
Salaries	505 000		½
Bad debts	57 680		½
Loss on sale of motor vehicle [($120 000 – $120 000 x 20% – $120 000 x 80% x 20% x 11/12) + $3000 – $60 000]	21 400		1½
Administrative expenses	269 400		½
Selling and distribution expenses	398 000		½
Rent and rates	314 000		½
Depreciation – motor vehicle [($1 300 000 – $420 000 – $120 000 x 80%) x 20% + $120 000 x 80% x 20% x 11/12]	174 400		1½
Depreciation – office equipment	897 500	2 637 380	½
Net profit		492 770	
Less: Appropriations			
Transfer to general reserve	200 000		½
Ordinary dividend – paid	50 000	250 000	½
Retained profits for the year		242 770	1
			(14)

(b)

Fatima Limited
Balance sheet as at 31 December 2009 ½

	$	$	$	
Fixed Assets				
Motor vehicles ($1 300 000 – $120 000)		1 180 000		1
Less: Accumulated depreciation [$420 000 + $174 400 – ($120 000 x 20% + $120 000 x 80% x 20% x 11/12)]		552 800	627 200	1½
Office equipment		3 590 000		½
Less: Accumulated depreciation ($948 000 + $897 500)		1 845 500	1 744 500	1
			2 371 700	
Current Assets				
Stock		194 350		½
Trade debtors ($798 400 – $900)		797 500		1
Accrued interest income		2 500		½
Prepayment		3 600		½
5% bank fixed deposit		100 000		½
Cash at bank		85 320		½
		1 183 270		
Less: **Current Liabilities**				
Trade creditors ($821 200 – $10 000)	811 200			1
Accruals ($3000 + $5200)	8 200			1
Share subscriptions refundable ($2.20 x 20 000)	44 000	863 400		1
Working capital			319 870	
			2 691 570	
Financed by:				
Share Capital				
800 000 ordinary shares of $2 each, fully paid			1 600 000	1
Reserves				
Share premium ($151 300 + $60 000)		211 300		1
General reserve ($140 000 + $200 000)		340 000		1
Retained profits ($297 500 + $242 770)		540 270	1 091 570	1
			2 691 570	
				(15)

HKDSE Questions

1. PP.Q9

(a)(1)

BC Ltd
Income statement for the year ended 31 December 2011

		$	$	
Sales			3 600 000	½
Less:	Cost of goods sold			
	Opening inventory	500 000		½
	Purchases (Balancing figure)	2 400 000		1
		2 900 000		
	Less: Closing inventory	1 100 000	1 800 000	½
Gross Profit ($3 600 000 × 50%)			1 800 000	½
Less:	Expenses			
	Administration expenses	270 000		½
	Selling and distribution expenses	645 000		½
	Finance costs [$1 000 000 × 6% + $800 000 (W1) × 4%]	92 000		1½
	Depreciation (W2)	180 000	1 187 000	½
Profit for the year			613 000	

(6)

(a)(2)

BC Ltd
Statement of financial position as at 31 December 2011

	$	$	$	
Non-current Assets				
Property, plant and equipment, net ($480 000 + $420 000 – $180 000)			720 000	2
Current Assets				
Inventory		1 100 000		½
Trade receivables ($3 600 000/12)		300 000		1
Cash at bank (Balancing figure)		9 983 000		½
		11 383 000		
Less: **Current Liabilities**				
Trade payables ($2 400 000/12 × 3)	600 000			1
Accruals ($270 000 × 1/3)	90 000	690 000		½
Net current assets			10 693 000	
			11 413 000	

Less: **Non-current Liabilities**			
Four-year bank loan	1 000 000		½
Five-year bank loan	800 000	1 800 000	1
		9 613 000	
Equity attributable to the owners of the company			
Ordinary shares of $2 each, fully paid		4 000 000	1
Share premium		3 000 000	½
Retained profits ($2 000 000 (W1) + $613 000)		2 613 000	1½
		9 613 000	

(10)

2. 2012.Q9

(a)

(1) Journal

	Dr.	Cr.	
2011	$	$	
December 31			
(i) Retained profit ($716 400 × 5%)	35 820		½
Allowance for doubtful debts		35 820	½
(ii) Cash at bank (600 000 × $6)	3 600 000		½
Ordinary share capital (600 000 × $2)		1 200 000	½
Share premium (600 000 × $4)		2 400 000	½
(iii) Cash at bank	900 000		½
2% Debentures		900 000	½
Trade payables ($225 000 / 96%)	234 375		½
Cash at bank ($900 000 / 4)		225 000	½
Retained profit		9 375	½
Retained profit ($900 000 × 2% × 1/12)	1 500		½
Interest payable		1 500	½
(iv) Accumulated depreciation	726 000		½
Retained profits	9 000		½
Property, plant and equipment		726 000	½
Cash at bank ($165 000 – $156 000)		9 000	½
(v) Retained profits	135 000		½
General reserve		135 000	½
(vi) Retained profits	424 800		½
Prepayment		424 800	½

(10)

(a)(2)

Dragon Ltd

Statement of financial position as at 31 December 2011

	$	
ASSETS		
Non-current Assets		
Property, plant and equipment, net		
($4 800 000 – $726 000) – ($1 240 000 – $726 000)	3 560 000	1
Current Assets		
Inventory	545 000	
Trade receivables, net ($716 400 – $35 820)	680 580	½
Cash at bank ($760 800 + $900 000 + $3 600 000 – $225 000 – $9000)	5 026 800	1
	6 252 380	
Total assets	9 812 380	
EQUITY AND LIABILITIES		
Equity attributable to owners of the company		
Ordinary shares of $2 each ($4 000 000 + $1 200 000)	5 200 000	½
Share premium ($319 000 + $2 400 000)	2 719 000	½
General reserve	135 000	½
Retained profits		
($996 500 – $35 820 + $9375 – $1500 – $9000 – $135 000 – $424 800)	399 755	1½
	8 453 755	
Non-current Liabilities		
2% Debentures	900 000	½
Current Liabilities		
Trade payables ($691 500 – $234 375)	457 125	½
Interest payable	1 500	½
	458 625	
Total equity and liabilities	9 812 380	
		(7)

3. 2014.Q8

(a)

- The materiality principle should be applied. 1
- Materiality refers to the impact of an item's nature and size on the company's financial operations. The materiality principle states that if an item would not make a difference to the users' decision-making, it is justifiable to write the item off as an expense when it is incurred. 1
- It is proper to expense the rubbish bin immediately in view of its insignificant value and the savings in time and cost of providing annual depreciation. 1

(3)

(b)

Windy Company Limited

Income statement for the year ended 31 December 2013

	$	$	
Sales ($1 950 000 – $38 000)		1 912 000	1
Less: Cost of goods sold [$1 220 000+ $23 600 + ($53 240 – $33 440)]		1 263 400	1
Gross profit		648 600	
Less: Expenses			
Administrative expenses ($276 000 + $182 000)	458 000		1
Selling and distribution expenses	168 400		½
Finance cost	24 000	650 400	½
Net loss		(1 800)	
			(4)

Windy Company Limited

Statement of financial position as at 31 December 2013

	$	$	
ASSETS			
Non-current assets			
Equipment, net ($3 769 000 – $630 000 – $182 000)		2 957 000	1
Current assets			
Inventory [$253 200 – ($53 240 – $33 440)]	233 400		1
Trade receivables ($381 600 – $38 000)	343 600		1
Cash at bank ($5 126 400 – 150 000×$8)	3 926 400	4 503 400	1
TOTAL ASSETS		7 460 400	
EQUITY AND LIABILITIES			
Equity			
Ordinary shares of $5 each, fully paid ($1 500 000 + $3 000 000)		4 500 000	1
Share premium ($209 500 + $1 800 000)		2 009 500	1
General reserve		500 000	½
Retained profits ($566 000 – $1800 – $500 000)		64 200	1½
		7 073 700	
Current liabilities			
Trade payables ($363 100 + $23 600)		386 700	1
TOTAL EQUITY AND LIABILITIES		7 460 400	
			(9)

**Change the answer as follows:

Ordinary shares, fully paid ($1 500 000 + $4 800 000)	6 300 000
General reserves ($209 000 + $500 000)	709 500
Delete <share premium>	

(c)

- Profitability: Debenture interest is deducted from earnings and hence will result in a smaller net profit. Ordinary dividend is only a profit appropriation item. 2
- Financial stability / solvency: A larger amount of non-current liabilities will result in higher gearing, causing financial instability. 2

(4)

4. 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)

(b)

Nancy Company Limited
Income statement for the year ended 31 December 2014

	$	$	
Sales ($1 380 000 – $7500)		1 372 500	½
Less: Cost of goods sold			
Opening inventory	156 000		½
Purchases	890 000		½
	1 046 000		
Less: Closing inventory [$290 000 – ($58 000 – $49 980)]	281 980	764 020	1
Gross profit		608 480	
Less: Expenses			
Administrative expenses *(workings)*	375 700		2½
Selling and distribution expenses ($286 900 + $2000)	288 900		½
Finance cost ($150 000 × 6% × $\frac{6}{12}$)	4 500	669 100	½
Net loss		(60 620)	
			(6)

Workings

Calculation of administrative expenses for the year ended 31 December 2014

	$
As per trial balance	345 000
Depreciation for 2014:	
- Disposed office equipment ($100 000 × 10% × $\frac{9}{12}$)	7 500
- Remaining office equipment [($1 570 000 – $100 000) × 10%]	147 000
- New office equipment ($168 000 × 10% × $\frac{3}{12}$)	4 200
Loss on disposal of office equipment [$100 000 – ($52 500 + 7 500) – $22 000]	18 000
Cost of new office equipment ($140 000 + $5000 + $1000)	(146 000)
	375 700

Nancy Company Limited
Statement of financial position as at 31 December 2014

	$	$	
ASSETS			
Non-current assets			
Office equipment ($1 570 000 – $100 000 + $168 000)		1 638 000	1
Less: Accumulated depreciation ($340 000 – $52 500 + $147 000 + $4200)		438 700	1½
		1 199 300	
Current assets			
Inventory	281 980		½
Trade receivables ($321 900 – $7500)	314 400	596 380	½
TOTAL ASSETS		1 795 680	

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	$	$	
EQUITY AND LIABILITIES			
Equity			
Ordinary shares of $5 each, fully paid		1 200 000	½
General reserve		100 000	½
Retained profits ($210 000 – $60 620 – $100 000)		49 380	1
		1 349 380	
Non-current liabilities			
6% Debentures		150 000	½
Current liabilities			
Trade payables	247 800		½
Accrued finance cost	4 500		½
Accrued selling expenses	2 000		½
Bank overdraft	42 000	296 300	½
TOTAL EQUITY AND LIABILITIES		1 795 680	
			(8)

(c)

- Prudence concept should be applied. 1

- It means that when choosing among accounting alternatives, the best choice is one that is least likely to overstate assets and profits. **Max. 2**
- The company should adopt the lower of cost or net realisable value in the valuation of inventory.
- The loss of the damaged inventory $8020 ($58 000 - $49 980) should be recognised in the income statement for the year ended 31 December 2014.

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

5. 2016.Q8

(a)

	Journal	Dr $	Cr $	marks
(i)	Short-term loan	24 000		0.5
	Delivery vans ($480 000 - $456 000)		24 000	0.5
	Accumulated depreciation – delivery vans	500		0.5
	Retained profits [$10 000 – ($456 000 ÷ 4 ÷ 12)]		500	0.5
	Retained profits ($480 000 - $456 000) ÷ 5	4 800		0.5
	Interest payable		4 800	0.5
(ii)	Retained profits [$32 250 - ($22 200 - $2600)]	12 650		0.5
	Inventory		12 650	0.5
(iii)	Retained profits	15 000		0.5
	Trade receivables		15 000	0.5
	Inventory ($15 000 x 4/5)	12 000		0.5
	Retained profits		12 000	0.5
(iv)	Trade receivables	3 000		0.5
	Deposits from customers		3 000	0.5
	Allowance for doubtful debts [$10 000 - ($503 000 - $15 000) × 2%]	240		0.5
	Retained profits		240	0.5
(v)	Cash at bank	11 800		0.5
	Trade payables		11 800	0.5
				(9)

(b)

Gary Company Limited
Statement of financial position as at 31 December 2015

	$	$	$	
ASSETS				
Non-current assets				
Office equipment, net ($840 000 - $210 000)			630 000	0.5
Delivery vans, net ($480 000 - $24 000) - ($10 000 - $500)			446 500	1
			1 076 500	
Current assets				
Inventory ($645 000 - $12 650 + $12 000)		644 350		1
Trade receivables ($503 000 - $15 000)	488 000			1
Less: Allowance for doubtful debts ($10 000 - $240)	(9 760)	478 240		0.5
Cash at bank ($154 400 + $11 800)		166 200		0.5
			1 288 790	
Total assets			2 365 290	
EQUITY AND LIABILITIES				
Equity				
Ordinary share capital			1 000 000	0.5
Retained profits (workings)			235 290	1.5
			1 235 290	
Non-current liabilities				
Long-term bank loan			200 000	0.5
Current liabilities				
Trade payables ($454 400 + $ 11 800)		466 200		0.5
Short-term loan ($480 000 - $24 000)		456 000		0.5
Interest payable		4 800		0.5
Deposits from customers		3 000		0.5
			930 000	
Total equity and liabilities			2 365 290	
				(9)

Workings

		$
Retained earnings before adjustments		255 000
Depreciation expense overstated	(i)	500
Interest expense omitted	(i)	(4 800)
Inventory written down	(ii)	(12 650)
Sales revenue overstated	(iii)	(15 000)
Closing inventory understated	(iii)	12 000
Allowance for doubtful debts overstated	(iv)	240
Adjusted retained earnings		235 290

(c)

- Acid test ratio of the company will **decrease**. 1
- Part of the bank loan will become **short-term obligation**, which will have to be **settled within the next financial year**. Max. 1
- Since total current liabilities will **increase**, the liquidity of the company will **deteriorate**.

(2)

6. 2017.Q5(d) – see Q7 below for answers.

7. 2017.Q5

(a) The Journal

		Dr $	Cr $	
(i)	Discounts allowed	3 400		0.5
	Trade receivables		3 400	0.5
(ii)	Cash	28 050		0.5
	Sales	450		0.5
	Trade receivables – Pearl Limited		28 500	0.5
(iii)	Trade payables	270		0.5
	Purchases		270	0.5
(iv)	Suspense	880		0.5
	Returns inwards		440	0.5
	Returns outwards		440	0.5
				(5)

*Note: No need to write (profit and loss) or (retained earnings) in the above corrections because the company has **not yet prepared** closing entries.*

(b) Statement to calculate the retained profits as at 31 December 2016

	$	$	
Draft net profit for 2016		7 700	
Adjustments: Discounts allowed omitted (i)	(3 400)		0.5
Sales overstated (ii)	(450)		0.5
Purchases overstated (iii)	270		0.5
Returns inwards wrongly debited (iv)	440		0.5
Returns outwards omitted (iv)	440	(2 700)	0.5
Adjusted net profit for 2016		5 000	0.5
Retained profits as at 1 January 2016		10 000	0.5
Retained profits as at 31 December 2016		**1b5 000**	0.5
			(4)

(c) Gearing ratio:

$$= \frac{320\ 000 + 760\ 000}{320\ 000 + (1\ 305\ 000 + 760\ 000 + \mathbf{15\ 000})} \times 100\%$$

= 45% (2)

(d)
- the dividend per share for preference shares is usually fixed, while it varies for ordinary shares. Max. 2
- The preference shareholders usually have the right to receive dividends prior to the ordinary shareholders.

(1 mark for each difference, maximum 2 marks) (2)

13 marks

8. 2018.Q7

(a)(i)

KK Company Limited
Income statement for the year ended 31 December 2017

	$	$	
Sales ($4 470 000 - $270 000 **(0.5)**)		4 200 000	1
Less: Returns inwards		60 000	0.5
		4 140 000	
Less: Cost of goods sold			
Opening inventory	930 000		0.5
Add: Purchases	2 467 000		0.5
	3 397 000		
Less: Closing inventory (Balancing figure)	637 000		0.5
($4 140 000 ÷ 150%) **(0.5)**		2 760 000	
Gross profit ($4 140 000 x ÷ ⅓)**(0.5)**		1 380 000	1
Less: Expenses			
Administrative expenses (workings)	899 350		3.5
Selling and distribution expenses ($757 000 x 45%)	340 650		0.5
Debenture interest ($800 000 x 4% x 6/12 **(0.5)**)	16 000		1
(Financing charges / expenses, Finance costs ✓)		1 256 000	
Profit before tax		124 000	0.5
Less: Profits tax		12 500	0.5
Profit after tax		**111 500**	
			(10)

Workings

($757 000 x 55% **(0.5)**) + $344 000 + $9 000 + $130 000 **(0.5)** = $899 350

Depreciation expenses = ($2 020 000 - $250 000 **(0.5)** - $50 000 **(0.5)**) x 20% = $344 000

Loss on disposal: [$50 000 – ($50 000 x 20% x 2) **(0.5)** - $21 000 **(0.5)**] = $9 000

(ii) Statement to calculate the retained profits as at 31 December 2017

	$	$	
Profit after tax		111 500	0.5
Less: Transfer to general reserve	10 000		0.5
2016 Final dividend	48 000		1
2017 Interim dividend	23 000	81 000	0.5
Retained profits for the year		30 500	
Retained profits brought forward **(or b/f)**		74 000	0.5
Retained profits carried forward **(or c/f)**		**104 500**	
			(3)

(b)
- Realisation principle **(Accrual concept ✗)** 1
- Revenue should be recognised only when goods are dispatched and accepted by the customers, or the services have been provided 1
- A purchase order should be recognised when goods are delivered to the customers, so the sales revenue should be recognised in 2018 1

(3)

(c) Reasons:

Facilitate intra- and inter-comparison of the performance of the business	1
- Avoid manipulation of profits by changing the accounting policy	1

(d) No

The company's ability to pay dividend depends on the availability of retained profits and cash	1
The increase in general reserve would not affect the cash position of the company	1
The retained profits set aside in the general reserve could still be used for paying dividends	1
(1 mark for each relevant point, max. 2 marks)	(2)
	20 marks

Supplementary marking notes for Q7:

- Candidates have to classify the depreciation expenses, loss on disposal and directors' fees as administrative expenses.
- Many candidates could not treat the final dividend correctly.
- Although many candidates could state the correct accounting principle, most of them could not explain the accounting treatment correctly with reference to the accounting principle.
- Many candidates failed to point out whether the increase in the balance of the general reserve would affect the company's ability to pay dividends.

9. 2018.Q8(A)

(a) The Journal

		Dr $	Cr $	
(i)	Retained profits **(Profit and loss / P/L ×)**	9 700		0.5
	Trade receivables		9 700	0.5
(ii)	Retained profits	2 709		0.5
	($294 000 / 0.98 - $9 700) x 3% - ($294 000 / 0.98) x 2%			
	Allowance for doubtful debts **(Trade receivables ×)**		2 709	0.5
(iii)	Retained profits	32 000		0.5
	Accrued expenses **(Accrued staff training expense ×)**		32 000	0.5
(iv)	Prepaid expenses	7 040		0.5
	(Prepaid management fees✓) (Prepayments×)			
	Suspense	14 080		0.5
	Cash at bank		14 080	0.5
	Retained profits		7 040	0.5
(v)	Retained profits – Sales	50 000		0.5
	Accumulated depreciation – motor vehicles	100 848		1
	($88 560 **(0.5)**+ $12 288 **(0.5)**)			
	Retained profits – loss on disposal	11 440		0.5
	Motor vehicles		150 000	0.5
	Retained profits – depreciation		12 288	0.5

(a) The Journal

		Dr $	Cr $	
	OR			
(v)	Retained profits	49 152		1.5
	($50 000 + $11 440 **(0.5)** - $12 288 **(0.5)**)			
	Accumulated depreciation – motor vehicles	100 848		1
	Motor vehicles		150 000	0.5
				(5)

(b)

Bright Company Limited
Statement of Financial Position as at 31 December 2017

	$	
Assets		
Non-current assets		
Motor vehicles, net ($2 017 100 - $150 000 **(0.5)** + $100 848 **(0.5)**)	1 967 948	1
OR ($2 017 100 - $61 440 **(0.5)**+ $12 288 **(0.5)**)		
Current assets		
Inventory	403 040	0.5
Trade receivables, net ($294 000 - $9 700 **(0.5)** - $2 709 **(0.5)**)	281 591	1
Prepaid expenses	7 040	0.5
Cash at bank ($447 400 - $14 080 **(0.5)**)	433 320	1
	1 124 991	
Total assets	3 092 939	
Equity and Liabilities		
Equity		
Share Capital	1 800 000	0.5
Retained profits (Workings)	690 539	2
	2 490 539	
Current liabilities		
Trade payables	507 700	0.5
Accrued expenses ($62 700 **(0.5)** + $32 000 **(0.5)**)	94 700	1
	602 400	
Total equity and liabilities	3 092 939	(8)

Workings:

Statement to calculate the adjusted retained profit as at 31 December 2017

	$	
Retained profits before adjustment	777 060	
Add: Management fee overstated	7 040	0.25
Depreciation overcharged	12 288	0.25
	796 388	
Less: Bad debts	9 760	0.25
Increase in allowance for doubtful debts	2 709	0.25
[($294 000 / 0.98 - $9 700) x 3% - ($294 000 / 0.98) x 2%]		
Staff training costs omitted	32 000	0.25
Sales overstated	50 000	0.25
Loss on disposal of motor vehicle	11 440	0.25
Adjusted retained profits	**690 539**	

(Any two correct items, 0.5 mark each, maximum 1.5 marks)

Marking for improper format in the statement of financial position

1. Without headings; first item being the respective category
2. Short form for items: 0 mark
3. Without subtotals: assumed sequence with Assets first, following by Equity and Current Liabilities
4. Current liabilities comes before Equity: no penalty