1. 2005.P1.Q3

Glory Company commenced trading on 1 January 2004 and the balance sheet of the business as at 31 December 2004 was as follows:

	$	$
Fixed Assets		
Office equipment at net book value		95 000
Current Assets		
Stock	38 900	
Debtors	24 500	
Bank	21 250	
Cash	10 000	
	94 650	
Less: Current Liabilities		
Creditors	56 700	
		37 950
		132 950
Capital, 1 January 2004		72 000
Add: Profit for the year		60 950
		132 950

On 31 March 2005, there was a burglary and a safe was stolen. The safe contained some accounting records and all the cash in hand. The insurance company had agreed to accept a claim for the amount of cash stolen.

The following information relating to the three months ended 31 March 2005 was obtained:

(i) Debtors paid in cash only and the amount of cash receipts from debtors was $210 000.

(ii) The only cash payments made were as follows:

	$
Creditors	9 000
General expenses (including $36 000 for rent of the shop for the four months ended 30 April 2005)	57 300

(iii) Cash in hand was banked regularly. An analysis of the bank statement for the three months ended 31 March showed the following:

2005		DR ($)	CR ($)
Jan 1	Balance b/f		19 350
Jan – Mar	Cash deposits		118 000
Jan – Mar	Payments	130 000	
Mar 31	Balance c/f		7 350

(1) A cash deposit of $5900 made on 31 December 2004 was credited by the bank on 2 January 2005. A cash deposit of $6400 made on 30 March 2005 remained uncredited by the bank on 31 March 2005.

(2) Cheques drawn on 20 December 2004 for $4000 and on 15 March 2005 for $2700 were still not presented by 31 March 2005.

(iv) Sales for the three months ended 31 March 2005 amounted to $270 000 and were all made on credit. Goods were sold at a mark-up of 50% on cost, except for a batch of goods with a normal selling price of $60 000 for which a 5% trade discount was given to the customer concerned.

(v) Stock turnover period (based on the average stock held for three months ended 31 March 2005) was 1.8 months.

(vi) Cheque payments to creditors during the three months amounted to $106 700.

(vii) On 1 January 2005, the owner brought in as additional capital a motor vehicle at the value of $70 000. On the same day, Glory Company paid $8000 by cheuqe for installing an air-conditioning system in the motor vehicle. Repair work of $3000 on the brake system had also been paid in February 2005. No other fixed assets were acquired during the three months.

(viii) Fixed Assets were to be depreciated at 20% per annum using the reducing balance method.

(ix) There were no drawings during the three months.

Required:

Prepare for Glory Company

(a) a cash account for the three months ended 31 March 2005 showing clearly the amount of cash stolen; (5 marks)

(b) a bank reconciliation statement as at 31 March 2005 to show the bank balance as per cash book; and (3 marks)

(c) a balance sheet as at 31 March 2005 showing the financial position of Glory Company after the burglary. (Note: Show the details of capital movements.) (12 marks)

2. 2006.P1.Q2 [Incomplete record + Partnership Financial Statement + Revaluation]

Robert and William commenced their partnership business on 1 January 2005. Their partnership agreement included the following terms:

(1) Robert and William are to introduce cash of $70 000 and $90 000 respectively as capital. Additionally, Robert is to bring in office equipment at a fair value of $40 000.

(2) A fixed capital account is to be maintained for each partner.

(3) Robert and William are entitled to partners' salaries annually in the amounts of $150 000, $180 000 respectively.

(4) Profits and losses are to be shared equally.

No proper books and accounts had been kept by the partnership. The following information relates to the year ended 31 December 2005:

(i) All transactions were made through the bank account. A summary of receipts and payments based on the bank statements for the 12 months from January to December 2005 is given beow:

	$	$
Receipts		
Receipts from trade debtors	5 828 760	
Capital introduced: Robert	70 000	
Capital introduced: William	90 000	5 988 760
Payments		
Payments to suppliers (net of refund)	3 474 000	
Purchase of office equipment	360 000	
Office rent	279 000	
Rental deposit	23 250	
Salaries paid to office staff	940 000	
Drawings: Robert	120 000	
Drawings: William	150 000	
Miscellaneous expenses	441 260	5 787 510
Balance as at 31 December 2005		201 250

(ii) It was ascertained from the bank statement for the month of December 2005 that a cheque of $225 000 paid to a supplier had not been presented for payment.

(iii) All sales were made on credit. A 2% cash discount was granted to trade debtors who settled their accounts within 15 days of sales. During the year, discounts had been allowed on cash receipts of $158 760 from trade debtors.

(iv) Goods were sold to customers at a standard mark up of 80%. During the year, credit notes amounting to $210 600 were issued for goods returned by customers. These goods were ultimately returned to suppliers for a full refund. There were no other purchase returns during the year.

(v) During the year 2005, Robert drew goods with a sale value of $32 400.

(vi) A two-year tenancy agreement for the office premises commenced on 1 January 2005. Apart from the monthly rental of $23 250 payable on the first day of each month, a rental deposit of $23 250 was also paid on 1 January 2005.

(vii) Provision for depreciation on all fixed assets was calculated at an annual rate of 20% using the reducing balance method.

(viii) A cheque was mistakenly drawn as $800 for the payment of an electricity bill of $500 for the month of December. The cheque had been sent out and cleared. In addition, a cheque of $2790 was drawn for paying the gas bills for Robert's private residence. These electricity and gas expenses were included as miscellaneous expenses.

(ix) Balances at 31 December 2005 included:

	$	
Trade debtors	639 900	
Trade creditors	594 000	
Inventories	679 500	(at cost)
Bonus accrued to office staff	40 000	

You are required to:

(a) Prepare for the partnership business of Robert and William the trading and profit and loss and appropriation account for the year ended 31 December 2005 and the balance sheet as at 31 December 2005. (20 marks)

On 1 January 2006, Paul was admitted to the partnership. The terms of the new partnership agreement are as follows:

(1) Each partner is to maintain a fixed capital account of $400 000 each. Any surplus or deficiency in the capital accounts of Robert and William is to be made up by a transfer to or from their current accounts.

(2) Paul is to introduce cash to pay for the fixed capital and his share of goodwill. In addition, he is to make a loan of $200 000 to the business.

(3) Robert, William and Paul are entitled to partners' salaries annually in the amounts of $150 000, $180 000 and $210 000 respectively.

(4) Profits and losses are to be shared equally.

Upon Paul's admission to the partnership, it was agreed that the following revaluations were to be made:

(i) Office equipment was to be revalued at $280 000.

(ii) Inventories were to be revalued upwards by 60%.

(iii) Uncollectible trade debts were estimated to be $22 900.

Goodwill was valued at $1 896 000. It was decided that no account is to be kept for goodwill.

You are required to:

(b) Prepare the partners' capital accounts at 1 January 2006 in columnar form. (7 marks)

(c) Explain why most partnership business prefer not to maintain a goodwill account even though its fair value has been estimated upon changes in the partnership. (3 marks)

3. 2009.P1.Q2(a)(b)

Adam, Bobby and Cedar were partners of an electronic products business, sharing profits and losses in the ratio of 3:2:1 respectively. The balance sheet of the partnership as at 31 December 2007 was as follows:

	$	$		$
Non-current assets			**Capital**	
Machinery, net	330 000		Adam	752 000
Equipment, net	200 000	530 000	Bobby	535 000
			Cedar	(18 000)
Current assets				1 269 000
Inventories	440 000		**Current liabilities**	
Trade debtors	265 000		Trade creditors	213 000
Cash at bank	247 000	952 000		
		1 482 000		1 482 000

On 1 January 2008, Cedar retired from the partnership and his share of goodwill upon retirement was ascertained at an amount just enough to set off the debit balance in his capital account. The new partnership kept the carrying values of all identifiable assets and liabilities and no goodwill account was maintained in the books.

After Cedar's retirement, profits and losses were to be shared by Adam and Bobby in the ratio of 3:2 respectively. Adam and Bobby were also entitled to an annual salary of $36 000 and $16 000 respectively. The partnership did not keep proper accounting records. The following information relates to the year ended 31 December 2008:

(i) Sales invoices for the year 2008 amounted to $8 560 000. It was later found that a sales invoice in the amount of $38 000 had been recorded twice.

(ii) Purchase invoices for the year 2008 amounted to $5 330 000. It was later found that $41 000 of the purchase was for Bobby's private consumption but the amount was paid by the partnership.

(iii) Debit notes issued by the partnership during the year 2008 amounted to $31 000 whereas credit notes issued by the partnership amounted to $26 000. The debit notes and credit notes were issued only for goods returned.

(iv) All sales and purchases were made on credit. All receipts from trade debtors and all payments made to trade creditors were made through the bank account. The summarized bank account of the partnership for the year 2008 was as follows:

	$		$
Balance b/d	247 000	Payments to trade creditors	4 833 000
Receipts from trade debtors	8 152 000	Selling and administrative expenses	2 242 000
		Salaries – Adam	30 000
		Salaries – Bobby	15 000
		Purchase of new machinery	530 000
		Installation of new machinery	20 000
		Trade debtors – returned cheque	32 000
		Drawings – Adam	59 500
		Balance c/d	637 500
	8 399 000		8 399 000

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(v) Confirmations were received from trade debtors and the total amount as at 31 December was $580 000. The partners decided to make a 50% allowance on the unconfirmed amounts as doubtful debts.

(vi) A comparison of the bank account and the bank statement for the month of December 2008 revealed the following discrepancies:

(1) Cheques amounting to $114 000 had not yet been presented to the bank by the trade creditors.

(2) A cheque in the amount of $28 000 received from a trade debtor was deposited on 31 December 2008 but it had not been shown in the bank statement.

(3) An amount of $12 000 was charged by the bank for the overdraft facilities provided.

(vii) The partnership did not keep cash. In 2008, Adam made cash payments totaling $15 000 for administrative expenses and Bobby paid $10 000 for selling expenses on behalf of the partnership.

(viii) Depreciation on machinery and equipment was provided at 20% per annum using the reducing balance method, with a full year's charge in the year of acquisition.

(ix) Included in the administrative expenses was an amount of $24 000 paid for the insurance of new machinery covering an 18-month period commencing on 1 July 2008.

(x) As at 31 December 2008, the partnership had two types of inventories as follows:

	Cost	Net realisable value	Selling price
	$	$	$
Type A	115 000	94 000	100 000
Type B	408 000	637 000	676 000

REQUIRED:

(a) Prepare the trading and profit and loss account for the partnership of Adam and Bobby for the year ended 31 December 2008. (Note: You are NOT required to show the profit and loss appropriation account.) (8 marks)

(b) Prepare the capital accounts of Adam, Bobby and Cedar in columnar form for the year ended 31 December 2008. (9 marks)

4. 2011.P1.Q1

Joey and Sam are in a partnership selling local and imported accessories. The following ratios relate to the partnership and the industry average for the year ended 31 December 2009:

Ratios	Partnership	Industry average
Trade receivables collection period	4.2 months	3.5 months
Trade payables repayment period	1.8 months	2.4 months
Inventory turnover rate	5.7 times	5.0 times

REQUIRED:
With reference to all the above ratios, comment on the liquidity of Joey and Sam's partnership in 2009. (4 marks)

The following terms are included in the partnership deed:

- A fixed capital account is to be maintained for each partner.
- Interest on capital is to be computed at 3% per annum based on the opening balance of the capital account of each partner.
- Profits and losses are to be shared between Joey and Sam in the ratio of 2: 1 respectively.
- Joey and Sam are entitled to an annual salary of $60 000 and $12 000 respectively.

The balance sheet of the partnership as at 31 December 2009 is shown below:

	$		$
Non-current assets		**Financed by:**	
Office equipment, net	563 700	Capital accounts:	
		-Joey	700 000
Current assets		-Sam	350 000
Inventories	154 590	Current accounts:	
Trade receivables	328 290	-Joey	32 000
Bank	102 420	-Sam	14 000
Cash	1 000	**Current liabilities**	
		Trade payables	44 000
		Accrued rates	10 000
	1 150 000		1 150 000

On 31 December 2010, all cash in the office of the partnership was stolen. The partnership did not keep proper accounting records. The following information for the year ended 31 December 2010 is available:

(i) Local and imported accessories were sold at a mark-up of 20% and 50% on cost respectively.

(ii) All purchases and sales were made on credit. After thorough investigation, it was confirmed that total sales were $872 000, returns inwards were $27 300, returns outwards were $14 900 and discounts received were $9 500. However, the amount of discounts allowed had not yet been ascertained.

(iii) The amount owed by customers as per existing records was $291 110 as at 31 December 2010, while the confirmed amount owed to suppliers as at the same date was $88 000.

(iv) All receipts and payments, except those for sundry expenses, were made through the partnership's bank account. A summary of receipts and payments based on the bank account in the books of the partnership

for the year ended 31 December 2010 is given below:

Receipts	$
Receipts from customers	865 390
Sale of office equipment	137 230
4% loan from Joey	
(borrowed on 1 July 2010, repayable on 1 July 2012)	80 000
	1 082 620

Payments	$
Payments to suppliers	371 600
Rent and rates	136 000
Salaries (including the annual salary paid to Joey)	80 900
Amount drawn to cash account	9 900
Purchase of office equipment (acquired on 1 December 2010)	87 300
Drawings – Joey	78 300
Drawings – Sam	72 040
	836 040

Compared with the bank statement for the month ended 31 December 2010, it was discovered that service charges of $4 400 and a dishonoured cheque of $11,000 drawn by a customer of the partnership had been debited by the bank. No entries had been made in the books of the partnership in respect of these two items.

(v) Local accessories with a selling price of $3108 were taken by Sam for his personal use. No entries had been made in the books.

(vi) The physical inventory count took place on 5 January 2011 and the amount of inventory was $180 150. During the period from 1 January 2011 to 5 January 2011, local accessories were sold to customers for $18900, imported accessories amounting to $7200 were purchased and local accessories costing $3300 were returned to the supplier.

(vii) On 1 April 2010, office equipment with a net book value of $140 000 as at 1 January 2010 was sold. It is the company's policy to depreciate all non-current assets at 20% per annum using the reducing balance method.

(viii) Rent and rates amounting to $22 000 were paid for Joey's personal accommodation. Salaries of $1300 to employees and the annual salary to Sam remained unpaid at 31 December 2010.

(ix) Cash is kept solely for paying sundry expenses. The cash balance as at 31 December 2010 was confirmed at $1 200. It was confirmed that the insurance company would pay 80% of the cash stolen on 7 February 2011.

REQUIRED:

(a) Prepare for the partnership the trading and profit and loss and appropriation account for the year ended 31 December 2010. (15 marks)

(b) Prepare for the partnership the balance sheet as at 31 December 2010. (11 marks)

5. AL2007.P1.Q2 [words in red: modified]

John Lam is engaged in the trading of a product. A water leakage in December 2006 caused some goods to be damaged and most of the accounting records destroyed. The following information relating to 2006 was available:

(i) Assets and liabilities as at 1 January 2006

	$
Office equipment (net)	46 000
Stock	180 000
Trade receivables (net of estimated doubtful debts of $5000)	91 600
Accrued rent	6 000
Bank	130 000
Trade creditors	84 000
Prepaid sundry expenses	1 000
Rental deposit (2 month's rental)	12 000
Deposit paid by a customer (for goods to be delivered in February 2006)	7 000

(ii) From 1 September 2006, the purchase cost increased abruptly. Purchases made before and after cost increase amounted to $576 000 and $429 000 respectively. To maintain competitiveness, the mark-up of the goods purchased since 1 September 2006 was adjusted downward from 40% to 30%. All the goods at the old mark-up were sold by the end of October 2006, of which goods costing $151 200 were sold at a discount of 15% off the normal selling price.

(iii) Goods costing $33 000 were damaged during the water leakage in December 2006. The insurance company agreed to compensate $30 000 and the amount was received in January 2007. Physical stock-taking revealed that stock at 31 December 2006 amounted to $291 060 at cost.

(iv) All receipts from customers and all payments to suppliers were in the form of cheques. The following summarized amounts for 2006 were extracted from the bank statements:

	$
Cheques received from customers	1 015 000
Cheques paid to suppliers	931 500
Returned cheque	25 200

The returned cheuqe was issued by a customer in full settlement of his debt. The customer, however, was declared bankrupt on 26 December 2006 and John decided that the whole amount was to be written off.

It was also discovered that (1) cheques in the amount of $19 800 drawn on the suppliers had not been presented and (2) chqeues in the amount of $38 610 received from customers had not been credited by the bank.

(v) Discounts received from suppliers and discounts allowed to customers amounted to $4680 and $8400 respectively.

(vi) Doubtful debts at 31 December 2006 were estimated at $9000.

You are required to:

(a) Based on the above, prepare the Trade receivables and Trade payables account for the year ended 31 December 2006. (8 marks)

Notes for instructor: the original requirement was to prepare purchases and sales ledger control accounts.

(vii) Cash of $20 580, representing the amount net of a 2% cash discount, was received from a customer during his visit at the office in early December 2006. $20 000 of this amount was paid for John's personal investment while the $580 was used to pay off sundry expenses of the business. No accounting entries had been made in respect of these transactions.

(viii) The bank statement as at 31 December 2006 showed a debit balance of $1870 as at that date. Further analysis of the bank statements in 2006 revealed the following summarized payments:

	$
Salaries	46 000
Rent	74 000
Drawings by John Lam	40 000
Purchase of computers	12 000
Additional rental deposit (Due to an increase in monthly rent to $7 000 effective from 1 October 20016)	2 000
Sundry expenses	8 170

(ix) Depreciation was calculated at an annual rate of 20% using the reducing balance method.

(x) The management decided to maintain the balance of cash at $1000 at the end of each month.

You are required to:

(b) Prepare for John Lam the trading and profit and loss account for the year ended 31 December 2006 and the balance sheet as at that date. Present both statements in vertical form. (16 marks)

John Lam spent much effort in preparing the final accounts for the year 2006. He complained: 'The purpose of accounting is to provide information to the investor. I myself run this firm and I know how well it runs. I am also the only investor. It is pointless for me to keep all those accounting records and prepare the final accounts.'

You are required to:

(c) Comment on what John Lam said with reference to the purpose of accounting that would facilitate the management of his business (6 marks)

1. 2005.P1.Q3

(a)

Cash

			$				$	
	2005			2005				
0.5	Jan 1	Balance b/f	10 000			Creditors	9 000	0.5
0.5		Receipts from debtors	210 000			General expenses	57 300	0.5
						Bank (118 000 – 5 900 + 6 400)	118 500	2
				Mar 31		Cash stolen	35 200	1
			220 000				220 000	(5)

(b)

Glory Company
Bank reconciliation Statement as at 31 March 2005

	$	
Balance as per bank statement	7 350	1
Add: Uncredited deposit	6 400	1
	13 750	
Less: Unpresented cheques (4 000 + 2700)	6 700	1
Balance as per cash book	7 050	
		(3)

(c)

Glory Company
Statement of Financial Position as at 31 March 2005

	$	$	
Non-current assets			
Office equipment, *net* (95 000 – 95 000 x 20% x 1/4)		90 250	1
Motor vehicles, *net* (70 000 + 8 000) – (78 000 x 20% x 1/4)		74 100	1
		164 350	
Current assets			
Stock (W1)	15 700		2
Debtors (W2)	84 500		1.5
Rent prepaid (36 000 x 1/4)	9 000		0.5
Insurance receivable	35 200		0,5
Bank	7 050		0.5
	151 450		
Less: **Current liabilities**			
Creditors (W4)	99 800		3
Working capital / net current assets		51 650	
		216 000	
Financed by:			
Capital, 1 January 2005		132 950	0.5
Add: Additional capital		70 000	0.5
		202 950	
Add: Profit for the period (*balancing figure*)		13 050	1
		216 000	
			(12)

Workings

(W1)

$$\text{Stock turnover period} = \frac{\text{Average stock sold}}{\text{Cost of goods sold}} \times 12 \text{ months} = 1.8 \text{ months}$$

$$\frac{(38\,900 + Closing\ stock) \div 2}{(270\,0000 + 60\,000 \times 5\%) \times \frac{2}{3}} \times 12 \text{ months} = 1.8 \text{ months}$$

Closing stock = $15 700

(W2)

Debtors

		$		$	
	Balance b/f	24 500	Cash	210 000	0.5
0.5	Sales	270 000	Balance c/f	84 500	
		294 500		294 500	

(W3)

	$	
Opening Stock	38 900	0.5
Purchases (*balancing figure*)	158 800	
	197 700	
Less: Closing stock	15 700	
Cost of goods sold	182 000	1

(W4)

Creditors

		$		$	
0.5	Cash	9 000	Balance b/f	56 700	
0.5	Bank	106 700	Purchases (W3)	158 800	1.5
	Balance c/f	99 800			
		215 500		215 500	

2. 2006.P1.Q2 [Incomplete record + Partnership Financial Statement + Revaluation]

(a)

Robert and William

Trading and profit and loss and appropriation account for the year ended 31 December 2005

	$	$	
Sales (W1)		6 682 500	2
Less: Returns inwards		210 600	½
		6 471 900	
Less: Cost of goods sold			
Purchases (W2)	4 410 000		2
Less: Returns outwards (210 600 × 100/180)	117 000		½
Drawings (32 400 × 100/180)	18 000		1
	4 275 000		
Less: Closing stock	679 500	3 595 500	½
Gross profit		2 876 400	
Less: Depreciation [(40 000 + 360 000)× 20%]	80 000		½
Office rent (23 250 × 12)	279 000		½
Salaries to staff (940 000 + 40 000)	980 000		½
Miscellaneous expenses (441 260 – 2790 – 300)	438 170		1
Discount allowed (158 760 × 2/98)	3 240	1 780 410	1
Net profit		1 095 990	
Partners' salaries			
Robert	150 000		½
William	180 000	330 000	½
		765 990	
Share of profit			
Robert	382 995		½
William	382 995	765 990	½
			(12)

Robert and William

Balance sheet as at 31 December 2005

	$	$	$	
Fixed assets				
Office equipment – at cost		400 000		½
Provision for depreciation		(80 000)	320 000	½
Current assets				
Inventories		679 500		½
Trade debtors		639 900		½
Rental deposit		23 250		½
Prepaid electricity expenses		300		½
		1 342 950		
Current liabilities				
Trade creditors	(594 000)			½
Accrued bonus	(40 000)			½
Bank overdraft (201 250– 225 000)	(23 750)	(657 750)	685 200	1
			1 005 200	
	Robert	**William**		
Capital account	110 000	90 000	200 000	1
Current account				
Partner salaries	150 000	180 000		
Share of profit	382 995	382 995		
Drawings (120 000 + 18 000 + 2790)	(140 790)	(150 000)		
	392 205	412 995	805 200	2
			1 005 200	(8)

(b)

Capital

		Robert	William	Paul		Robert	William	Paul	
		$	$	$		$	$	$	
1½	Goodwill (1:1:1)	632 000	632 000	632 000	Balance b/f	110 000	90 000	–	
					Goodwill (1:1)	948 000	948 000	–	1½
1	Current	198 400	178 400	–	Revaluation profit (1:1)	172 400	172 400	–	2
½	Balance c/f	400 000	400 000	400 000					
					Cash introduced	–	–	1 032 000	½
		1 230 400	1 210 400	1 032 000		1 230 400	1 210 400	1 032 000	
									(7)

(c) Reasons for not maintaining goodwill account:

- Valuation may be subjective; estimated value may not be reliable
- Not arise from arms' length transaction
- Intangible nature of the asset;
- Relationship with future economic benefit not easily identifiable or measurable

Max. 3
Total: 30 marks

Workings

W1 **Sales for the year**

W1: Trade receivables

	$		$	
Sales (*balancing figure*)	6 682 500	Bank	5 828 760	0.5
		Discounts allowed	3 240	0.5
		Returns inwards	210 600	0.5
		Balance c/d	639 900	
	6 682 500		6 682 500	

W2 **Purchases for the year**

Creditors

		$		$
1	Bank (3 474 000 + 225 000 + 117 000)	3 816 000	Purchases (*balancing figure)*	4 410 000
0.5	Returns outwards	117 000	Bank: refund	117 000
	Balance c/d	594 000		
		4 527 000		4 527 000

W3 (For reference only. Calculation of goodwill is **NOT REQUIRED** in HKDSE syllabus)

Goodwill

	$	
Net profit	1 100 000	
Partners' salaries (150 000+180 000)	(330 000)	½
Industry average return on net assets (1 380 000 × 10%)	(138 000)	½
Super profit	632 000	

Goodwill = 3 × $632 000 = $1 896 000 ½

W4

Revaluation profit

	$	
Office equipment (280 000 – 320 000)	(40 000)	0.5
Inventories (679 500 x 60%)	407 700	0.5
Allowance for doubtful debts	(22 900)	0.5
	344 800	

3. 2009.P1.Q2(a)(b)

(a)

Adam and Bobby

Trading and profit and loss account for the year ended 31 December 2008

	$	$	
Sales ($8 560 000 – $38 000)		8 522 000	1
Return inwards		(26 000)	½
		8 496 000	
Opening inventories	440 000		½
Purchases	5 330 000		½
Drawings	(41 000)		½
Return outwards	(31 000)		½
	5 698 000		
Closing inventories ($94 000 + $408 000)	(502 000)	5 196 000	½
Gross profit		3 300 000	
Selling and administrative expenses ($2 242 000 + $15 000 + $10 000 – $24 000×12/18)	2 251 000		1
Depreciation on machinery [($330 000 + $530 000 + $20 000) × 20%]	176 000		½
Depreciation on equipment ($200 000 × 20%)	40 000		½
Allowance for doubtful debts (W1)	30 500		1
Bank charges	12 000	2 509 500	½
Net profit before appropriations		790 500	½

(8)

(b)

Capital

		Adam	Bobby	Cedar		Adam	Bobby	Cedar	
		$	$	$		$	$	$	
	Balance b/d			18 000	Balance b/d	752 000	535 000		
2	Goodwill adjustment (W2)	10 800	7 200		Goodwill adjustment			18 000	1
	Balance c/d	741 200	527 800						
		752 000	535 000	18 000		752 000	535 000	18 000	
1	Drawings	59 500	41 000		Balance b/d	741 200	527 800		
1	Balance c/d	1 145 800	793 200		Expenses paid	15 000	10 000		1
					Partners' salary	6 000	1 000		2
					Share of profit ($790 500 – $36 000 – $16 000)	443 100	295 400		1
		1 205 300	834 200			1 205 300	834 200		

(9)

4. 2011.P1.Q1

(a) Receivables collection period

- The collection period of the partnership is longer than that of the industry aerage by 0.7 month.
- It may be the result of a more lenient credit policy with a longer credit period granted to its customers in order to promote sales.

Payables repayment period

- The repayment period of the partnership is shorter than the industry average by 0.6 month.
- The business has to repay the supplier faster than its competitors, which hampered the liquidity of the business

Inventory turnover rate

- The inventory turnover rate is higher than the industrial average by 0.7 times
- The higher the rate, the faster the flow of stock, the faster the inventory replenishment and there is less obsolescence and outdated inventories.

Overall comment

- The higher inventory turnover rate implied the partnership was more able to sell inventories at a faster rate in 2009 and thus in a better liquidity position in this regard.
- Yet, the longer collection period and the shorter repayment period indicated that the overall liquidity of the business was worse than its competitors in 2009.
- The partnership can give cash discount to encourage early settlement from trade receivables, or try to find other suppliers with a longer credit period so as to maintain its liquidity.

2011.P1.Q1(cont'd)

(b)

Joey and Sam
Trading and profit and loss and appropriation account
for the year ended 31 December 2010

	$	$
Sales		872 000
Less Returns inwards		(27 300)
		844 700
Less Cost of goods sold:		
Opening inventories	154 590	
Purchases [(W1) - $3 108/1.2]	437 410	
Less Returns outwards	(14 900)	
	577 100	
Less Closing inventory [$180150 + 18900/1.2 – 7200 + 3300]	(192 000)	(385 100)
Gross profit		459 600
Add Other revenues:		
Gain on disposal [$137 230 – ($140 000 - $140000 x 20% x 3/12)]		4 230
Discounts received		9 500
		473 330
Less Expenses:		
Rent and rates ($136 000 – 10000 – 22000)	104 000	
Loss on petty cash stolen ($1 200 x 20%)	240	
Salaries ($80 900 – 60000 + 1300)	22 200	
Depreciation on office equipment [($563 700 – 140 000) x 20% + 140 000 x 20% x 3/12 + 87 300 x 20% x 1/12]	93 195	
Sundry expenses ($1000 + 9900 – 1200)	9 700	
Discounts allowed (W2)	16 490	
Interest on loan from Joey ($80 000 x 4% x 1/12)	1 600	
Bank charges	4 400	(251 825)
Net profit		221 505
Less Appropriations:		
Partner's salaries – Joey	60 000	
- Sam	12 000	72 000
Interest on capital – Joey	21 000	
- Sam	10 500	31 500
		118 005
Share of profit		
- Joey	78 670	
- Sam	39 335	118 005

Workings:

W1 Trade payables

	$		$
Bank	371 600	Balance b/d	44 000
Returns outwards	14 900	Purchases (Bal fig)	440 000
Discounts received	9 500		
Balance c/d	88 000		
	484 000		484 000

W2:

Trade receivables

	$		$
Balance b/d	328 290	Bank	865 390
Bank: Dishonored cheque	11 000	Discounts allowed (Bal fig)	16 490
Sales	872 000	Returns inwards	27 300
		Bal. c/d (291 110 + 11 000)	302 110
	1 211 290		1 211 290

Joey and Sam

Balance sheet as at 31 December 2010

	$	$	$
Non-current Assets			
Office equipment, net [($563700+87300-93195-(140000-7000))			424 805
Current Assets			
Inventories		192 000	
Trade receivables ($291 110 + 11 000)		302 110	
Insurance receivables ($1200 x 80%)		960	
Bank ($102 420 + 246 580 – 4400 – 11000)		333 600	
		828 670	
Current liabilities			
Trade payables	88 000		
Accrued loan interest	1 600		
Accrued wages and salaries	1 300	(90 900)	
Net current assets			737 770
			1 162 575
Non-current liabilities			
4% Loan			(80 000)
			1 082 575
	Joey	Sam	
Financed by:			
Capital accounts	700 000	350 000	1 050 000
Current accounts (W3)	31 370	1 205	32 575
			1 082 575

W3:

Current

	Joey	Sam		Joey	Sam
	$	$		$	$
Drawings			Bal. b/d	32 000	14 000
-Joey (78300+22k)	100 300	--	Appropriations		
- Sam (72040+2590)	--	74 630	-Partners' salaries	--	12 000
Balance c/d	31 370	1 205	-Interest on capital	21 000	10 500
			-Share of profit	78 670	39 335
	131 670	75 835		131 670	75 835

5. AL2007.P1.Q2 [modified]

(a)

Trade receivables

		$		$	
1	Balance b/d (91 600 + 5 000)	96 600	Bank: cheques banked (1 015 000 + 38 610)	1 053 610	1
2	Sales	1 163 070	Discounts allowed	8 400	0.5
0.5	Bank: returned cheque	25 200	Bad debt	25 200	0.5
			Balance c/d	197 660	
		1 284 870		1 284 870	
					(5.5)

Trade payables

		$		$	
1	Bank: cheques issued (931 500 + 19 800)	951 300	Balance b/d	84 000	0.5
0.5	Discounts received	4 680	Purchases (576 000 + 429 000)	1 005 000	0.5
	Balance c/d	133 020			
		1 089 000		1 089 000	
					(2.5)

(b)

John Lam

Trading and profit and loss account for the year ended 31 December 2006

	$	$	
Sales		1 163 070	0.5
Cost of Sales			
Opening stock	180 000		0.5
Purchases	1 005 000		0.5
Stock Loss	(33 000)		0.5
Closing stock	(291 060)	(860 940)	0.5
Gross profit		302 130	
Add Other revenues:			
Discounts received		4 680	0.5
		306 810	
Less Expenses:			
Salaries	46 000		0.5
Rent (6 000 x 9 + 7 000 x 3)	75 000		1
Discounts allowed	8 820		1
Net loss on stock (33 000 – 30 000)	3 000		1
Bad debt	25 200		0.5
Increase in allowance for doubtful debts	4 000		0.5
Depreciation [(46 000 + 12 000)x20%]	11 600		1
Sundry expenses (8170 + 1000 + 580)	9 750	(183 370)	1
Net profit for the year		123 440	0.5
			(10)

John
Statement of Financial Position as at 31 December 2006

	$	$	$	
Non-current assets				
Office equipment (46 000 + 12 000 – 11 600)			46 400	0.5
Current assets				
Stock		291 060		0.5
Trade debtors (197 660 – 20 580/98%)	176 660			0.5
Less: Allowance for doubtful debts	9 000	167 660		0.5
Rental deposit (12 000 + 2 000)		14 000		0.5
Receivable from insurance company		30 000		0.5
Bank (- 1870 – 19 800 + 38 610)		16 940		0.5
Cash		1 000		0.5
		520 660		
Less: **Current liabilities**				
Trade creditors	133 020			0.5
Accrued rent (6 000 + 75 000 – 74 000)	7 000	140 020		0.5
			380 640	
Net assets			427 040	
Capital at 1 January 2006			363 600	0.5
Net profit for the year			123 440	
			488 040	
Less: Drawings (40 000 + 20 000)			60 000	0.5
			427 040	
				(6)

(c)

Reporting	A properly prepared set of financial statements might be required by users including the tax authority, creditors, bankers, etc.
Controlling	Proper accounting records facilitates the collection of debts as well as on time payment of debts, etc.
Evaluating	Properly presented trading results and financial position in accordance with generally accepted accounting principles facilitate the comparison of results across years between firms.
Planning	Proper books of accounts will facilitate John's decision-making with respect to manpower planning, future expansion, etc.

Max. 6, (6)

Workings

Goods of old mark-up	$		$	
Opening stock	180 000			
Purchases	576 000			
	756 000			
Sold at 15% discount	(151 200)	x 140% x 85%	179 928	0.5
Sold at normal mark-up	(604 800)	x 140%	846 720	0.5
			1 026 648	

Goods of new mark-up	$		$	
Purchases	429 000			
Goods damaged	(33 000)			
Closing stock	(291 060)			
	104 940	x 130%	136 422	(1)
Total Sales			1 163 070	

Statement of affairs as at 1 January 2006

	$
Office equipment	46 000
Stock	180 000
Trade debtors (net)	91 600
Accrued rent	(6 000)
Bank	130 000
Trade creditors	(84 000)
Prepaid sundry expenses	1 000
Rental deposit	12 000
Deposit by trade debtor	(7 000)
	363 600

1994 Q.2 Cash Shortage

Mr. Wong suspected that his newly-employed cashier had been misappropriating cash from the company.

The balances verified by Mr. Wong as true were:

	30 April 1994	1 April 1994
	$	$
Creditors	10,872	12,623
Debtors	15,648	8,139
Cash	2,281	?

The invoices indicated that credit sales and credit purchases for the month were $64,725 and $21,403 respectively. Of the total payments to creditors, $6,200 was made by cheques whilst all debtors paid their accounts in cash. Cash sales amounted to $4,240. During the month, cash $25,000 was deposited into the bank.

Cash was paid for the following items:

	$
Electricity	528
Cash purchases	1,040
Drawings	3,000
Salary of cashier	5,450

On 30 April 1994, there was $3,305 cash in hand.

Required:

Calculate the amount of cash shortage. (10 marks)

2000 Q.5 Sales/Stock Stolen

Ben Lee is a wholesaler of carpets. On 1 January 2000, he had the following balances in his books:

	$
Trade debtors	42,000
Bank	69,300
Stock	84,600
Trade creditors	79,110

All purchases and sales were made on credit. During the three months to 31 March 2000, Ben made a gross profit of 25% on all sales. The business banked all receipts from debtors amounting to $995,000 and paid the following out of the business bank account:

	$
Operating expenses	160,400
Trade creditors	?

On 31 March 2000, there was a burglary in the shop and all the stock was stolen. It was also discovered that the cashier had misappropriated cash from the business bank account amounting to $10,000.

In order to ascertain the amount of the stock loss, Ben identified the following balances on the same day:

	$
Trade debtors	73,500
Bank	55,650
Trade creditors	88,900

Required:

(a) Calculate the amount of sales for the three months to 31 March 2000. (2 marks)

(b) Draw up the bank account for the period. (3 marks)

(c) Calculate the amount of stock stolen. (5 marks)

2001 Q.4 Trading and Profit and Loss

Mannix Company commenced business on 1 March 2001. An inexperienced bookkeeper for the company prepared the following profit and loss account based on the cash receipts and payments made during the month of March 2001:

Mannix Company
Profit and Loss Account for the month ended 31 March 2001

	$	$
Receipts from sales		175,000
Less: Payments for purchases		80,000
Gross profit		95,000
Add: Office equipment	76,000	
Rent	21,000	
Miscellaneous expenses	13,000	110,000
Net loss		15,000

Additional information:

(i) Credit sales amounted to $114,000 and the whole amount had not yet been received.

(ii) Credit purchases amounted to $150,000, of which $110,000 was still owing to the suppliers.

(iii) Unsold goods amounted to $12,000 at cost at 31 March 2001.

(iv) The office equipment was purchased for $76,000 cash. It was estimated to have a useful of 5 years and a residual value of $4,000.

(v) Warehouse rent of $5,000 for March was to be paid on 5 April 2001.

(vi) Received March electricity bills amounting to $5,900. They were to be paid in April 2001.

Required:

Prepare the trading and profit and loss account of Mannix Company for the month ended 31 March 2001. (10 marks)

1992S Q.9 Stock Stolen

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

On enquiry, you are given the following information:

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

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

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

(iv) The average ratio of gross profit to sales for the period was 331/3%.

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

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

Required:

(a) Calculate the value of stock lost in the burglary. (8 marks)

(b) Prepare a statement to show the amount to be claimed from the insurance company. (3 marks)

(a) Prepare journal entries to record the necessary adjustments resulting from the burglary and the insurance settlement in the books of Che Sang. (9 marks)

1992 Q.10 TPL/BS

On 1 March 1991, Frankie Lee started a business trading in fancy goods with $170,000 in cash and opened a bank account with overdraft facilities. The following bank transactions were for the year 1991:

		$
Mar. 1	Cash banked	150,000
Mar. 2	Paid rent for 18 months to 31 August 1992	108,000
June 5	Paid for office equipment	36,000
Oct. 1	Drawings	25,000
Oct. 31	Paid trade creditors	214,620
Dec. 2	Cheques from trade debtors banked	180,000

Additional information:

(i) Balances at 31 December 1991 were as follows:

	$
Stock in trade (at cost)	64,320
Trade creditors	57,260
Trade debtors	80,780
Cash in hand	18,000

(ii) Overdraft interest of 2% on any outstanding amount at the month end was to be charged to the account in the following month.

(iii) Electricity, water and other expenses for the ten months to 31 December 1991 amounting to $8,000 were paid in cash.

(iv) A full year's depreciation on office equipment was to be provided on a straight-line basis at 25% on cost.

(v) Bad debts for the year amounting to $1,200 were written off and provision for bad debts was to be allowed at 5% on unsettled amounts.

(vi) Sales were made on both a credit and a cash basis but all purchases were paid for by cheque only.

(vii) Half of the rent, electricity, water and other expenses were to be allotted to the business as the shop space was used partly for business and partly as the Lee family's residence.

Required:

Prepare a trading and profit and loss account for the ten months ended 31 December 1991, and a balance sheet as at that date. (20 marks)
(Calculations to the nearest dollar)

1995 Q.9 Bank/TPL/BS

Mr. Ho started a retail business on 1 April 1994. The only records he kept consisted of entries in a notebook. An analysis of his bank statements for the year ended 31 March 1995 was as follows:

	$
Paid into bank:	
Capital	200,000
Receipts from debtors	108,200
Cash sales	140,800
Payments:	
Office equipment	98,000
Fixtures and fittings	38,000
Purchases	237,000
Rent and rates	18,000
Electricity	6,000
Sundry expenses	13,500

Apart from the following cash payments, the cash sales were all banked:

	$
Drawings	38,000
Travelling expenses	2,100
Wages	23,000
Sundry expenses	3,200

The record in his notebook showed that cash discounts allowed to credit customers were $2,800 and discounts received from suppliers amounted to $2,100. Bad debts written off during the year were $1,200.

On 31 March 1995, Mr. Ho estimated that $28,200 was owed by customers while liabilities to suppliers amounted to $33,500. Stock on hand was valued at $29,350 and depreciation of office equipment and fixtures and fittings was to be provided at 20% per annum and 10% per annum respectively.

Required to prepare:

(a) the cash account and the bank account; (7 marks)

(b) the trading and profit and loss account for the year ended 31 March 1995; and (8 marks)

(c) the balance sheet as at 31 March 1995. (5 marks)

1997 Q.9 Bank/TPL/BS

Mr. Lee started business as a retailer on 1 May 1995. He has not kept a full set of books, but all cash transactions are dealt with through an account with a bank.

You have been asked to prepare the final accounts in order to ascertain his operating performance and financial status in respect of the year ended 30 April 1997. The following information is available:

(i) The assets and liabilities of Mr. Lee at 30 April 1996 and 30 April 1997 were as follows:

	1996	1997
	$	$
Furniture and fixtures, at cost	43,500	61,500
Provision for depreciation		
furniture and fixtures	4,350	?
Stock	63,450	53,400
Trade debtors	56,400	34,650
Prepaid rates	1,125	1,350
Cash at bank	-	17,850
Trade creditors	50,850	58,800
Accrued electricity	750	1,050
Bank overdraft	31,500	-

(ii) Some of the business transactions for the year ended 30 April 1997 effected through the bank account were as follows:

	$
Wages	81,000
Suppliers of goods	377,100
Rent, rates and electricity	15,150
Sundry expenses	11,190
Proceeds from sale of furniture	37,500

(iii) Goods costing $9,000 were drawn by Mr. Lee for his own use.

(iv) Furniture costing $20,000, with a net book value of $18,000, had been disposed of during the year. The annual depreciation expense is being calculated at the rate of 10% based on the cost of the assets still held in the business at the year end.

(v) The source of all cash received was from trade debtors, except for the proceeds received on sale of furniture; and all cash received has been banked, except the withdrawals of $80,000 by Mr. Lee.

Required:

(a) Draw up the business bank account for the year ended 30 April 1997. (5 marks)

(b) Prepare a trading and profit and loss account for the year ended 30 April 1997 and a balance sheet as at that date. (15 marks)

1998 Q.7 Bank/TPL/BS

Clara is a wholesaler for children's clothing. For several years, she has obtained a gross profit margin of 40% on all sales.

In a burglary in February 1998, she lost stock costing $60,000 as well as many of her accounting records. However, after a careful investigation, the following information for the year ended 31 March 1998 was made available:

(i) Account balances at 31 March 1997 were as follows:

	$
Capital	227,500
Stock, at cost	28,000
Trade debtors	94,500
Trade creditors	63,000
Office premises, at cost	150,000
Delivery van, at cost	75,000
Provision for depreciation	
Office premises	90,000
Delivery van	30,000
Prepaid administration expenses	1,800
Bank	64,650
Accrued rent and rates	3,450

(ii) All receipts and payments were made through the bank account. The following bank payments were made during the year:

	$
Trade creditors	591,000
Rent and rates	100,800
Drawings	64,500
Administration expenses	110,400

(iii) Stock at cost amounted to $88,000 at 31 March 1998.

(iv) Discounts received and discounts allowed amounted to $18,000 and $24,300 respectively.

(v) Administration expenses prepaid at 31 March 1998 totalled $1,200.

(vi) Trade debtors at 31 March 1998 were $100,500.

(vii) Rent and rates for the year amounted to $105,300.

(viii) Trade creditors at 31 March 1998 amounted to $114,000.

(ix) Depreciation is provided at the following rates:

Office premises	-	5% on cost
Delivery van	-	20% on a reducing balance basis

Required to prepare:

(a) the bank account showing the balance as at 31 March 1998; (4 marks)

(a) the trading and profit and loss account for the year ended 31 March 1998; and (9 marks)

(c) the balance sheet as at 31 March 1998. (7 marks)

1999 Q.10 Cash Stolen

Ben Wong operates a small retail business which closes on Sundays. Every Monday morning, he deposits cash takings of the previous week into the bank. His shop was broken into on the night of Monday, 15 March 1999, and all the cash was stolen.

Subsequent investigation revealed the following:

(i) On 1 March 1999, after banking the cash takings of the previous week, Ben Wong extracted the following account balances from the books:

	$
Bank	98,627.60
Cash	4,276.80
Petty cash	503.60

(ii) The cost of sales to customers were:

	Cash	Credit
1999	$	$
1 to 6 March	39,317.00	169,400.00
8 to 13 March	45,223.00	208,500.00
15 March	7,132.00	32,470.00

Goods were marked up at the rates of 20% and 22% on cash and credit sales respectively.

(iii) The following had been paid out of cash before the takings were banked:

1999		$
2 March	Salaries	15,000
10 March	Electricity expenses	3,180

(iv) All the trade debtors as at 28 February 1999, amounting to $46,103.80, and 70% of the credit customers who made purchases during the period 1 to 13 March 1999, settled their accounts by cheque.

(iv) Trade creditors amounting to $414,905.80 were settled by cheque during 1 to 15 March 1999 and cash discounts of $26,245.30 were received.

(vi) Rent of $81,000 for 3 months to 31 May 1999 was paid on 5 March 1999 by cheque.

(vii) The petty cash imprest account was restored to $1,000 on 1 March 1999 by a withdrawal from the bank. Subsequent disbursements to 15 March 1999 amounted to $401.70.

Required to prepare statements to show:

(a) the amount of cash stolen on 15 March 1999; and (11 marks)

(b) the balance on the bank account as at 15 March 1999. (9 marks)

2005 Q.7 Cash/Stock Stolen

Dan Tang operates a small business in bed-linen. On 1 April 2004, Dan had the following balances in his books:

	$
Trade debtors	54,000
Trade creditors	27,000
Bank	60,380
Cash	5,120
Stock	30,800

Purchases and sales were made for cash and on credit. A mark-up of 80% on cost was made on all sales.

On 31 March 2005, the date of the financial year end, a fire broke out in the business premises and some of the accounting records, stock and cash were destroyed. After investigating all the remaining records, Dan was able to identify the following:

(i) Average cash sales of $21,975 per month were recorded. The credit period allowed to average trade debtors was 1.5 months. The amounts received from trade debtors were all in cash.

(ii) Expenses for the year, after adjustments, were as follows:

	$
Rent and rates	91,200
Bad debts	8,720
Discounts allowed	20,642
Selling and distribution expenses	10,990
Administrative expenses (including the depreciation of $13,000 on office equipment)	219,700

On 31 March 2005, rates of $1,800 were prepaid and selling and distribution expenses of $490 were accrued.

(iii) A piece of office equipment was sold for cash $30,000 during the year.

(iv) The business banked all receipts after paying for expenses, cash purchases of $10,000 per month and Dan's drawings of $20,000 for the year.

(v) The following payments were made by cheque during the year:

	$
Trade creditors	381,000
Purchase of office equipment	28,000

(vi) Correspondences with the customers, suppliers and bank and counting of the remaining cash and stock revealed the following balances at 31 March 2005:

	$
Trade debtors	101,700
Trade creditors	31,000
Bank	41,000
Cash	38
Stock	16,300

You are required to:

Prepare statements to show

(a) the amount of cash loss on 31 March 2005; and (20 marks)

(b) the amount of stock loss on 31 March 2005. (9 marks)

2007 Q.5 Bank/TPL/BS

George Ho is a sole trader engaged in the trading of clocks and watches. During a burglary in March 2007, George lost some of the stock as well as most of his accounting records. However, after careful investigations, the following information for the year ended 31 March 2007 was made available:

(i) Account balances at 31 March 2006 were as follows:

	$
Motor vehicles, at cost	420,000
Accumulated depreciation - motor vehicles	252,000
Stock, at cost	284,000
Trade debtors	157,500
Trade creditors	105,000
Prepaid administrative expenses	3,000
Accrued selling expenses	5,750
Bank	107,750
Capital	?

(ii) All receipts and payments were made through the bank account. The bank transactions during the year were:

	$
Trade debtors	?
Trade creditors	1,839,000
Selling expenses	182,240
Drawings	18,000
Administrative expenses	109,120

(iii) Based on the sales invoices, the following information relating to sales was available:

Date of receipts of order	Date of delivery	Sales amount $
28 February 2006	3 April 2006	560,000
15 June 2006	19 June 2006	530,000
25 September 2006	30 September 2006	620,000
30 December 2006	5 January 2007	680,000
31 March 2007	6 April 2007	300,000
		2,690,000

(iv) Discounts received and discounts allowed amounted to $16,000 and $21,060 respectively.

(v) In January 2007, George drew stock costing $20,000 for personal use.

(vi) On 1 March 2007, a motor vehicle with a cost of $180,000 was purchased on credit. Depreciation on motor vehicles is to be calculated at 10% per annum on cost.

(vii) The business attained an ~~average stock turnover period of 2 months~~ inventory turnover of 6 times over the past few years. Stock at 31 March 2007 had been replenished to the normal level and amounted to $212,000 at cost.

(viii) Account balances at 31 March 2007 were as follows:

	$
Trade debtors	181,440
Trade creditors	98,000
Prepaid administrative expenses	3,360
Accrued selling expenses	7,020

You are required to prepare:

(a) the bank account; (6 marks)

(b) the trading, profit and loss account for the year ended 31 March 2007; and (13 marks)

(c) the balance sheet as at 31 March 2007. (13 marks)

Note to item (vii):
Inventory turnover in months is NOT INCLUDED in DSE syllabus.
Hence, average inventory turnover period of 2 months is replaced by inventory turnover of 6 times.

1. 2013.P2A.Q5

Mr Luk is a retailer who does not keep proper accounting records for his business. On 31 December 2012, his accountant disappeared suddenly and all cash in hand was stolen. Some of the accounting records were also missing. After investigation, the following information is available:

(i) All sales were made on cash basis at a uniform mark-up of 40% for the year 2012.

(ii) A summary of receipts and payments based on the cash at bank account for the year ended 31 December 2012 showed the following:

Receipts	$
Cash deposit	1 203 000
Payments	$
Administrative expenses	226 000
Payments to suppliers	987 900
Drawings (by Mr Luk)	120 850
Selling expenses	64 300
Bank charge	20 050
	1 419 100

(iii) During 2012, selling expenses of $44 000 were paid in cash.

(iv) The insurance company had agreed to compensate the business for 50% of the cash stolen.

(v) Balances of the business as at 31 December were as follows:

	2011	2012
	$	$
Office equipment, net (with a cost of $187 500)	150 000	?
Inventory	123 000	110 900
Cash at bank	392 100	?
Trade payables	149 000	102 800
Accrued administrative expenses	-	1 150
Prepaid selling expenses	20 000	-
Capital	547 000	?
Cash in hand	10 900	? (before stolen)

(vi) Depreciation is to be provided on office equipment at a rate of 20% per annum using the straight-line method.

REQUIRED:

(a) Prepare an income statement for the year ended 31 December 2012, showing the cash loss separately. (11 marks)

(b) Prepare a statement of financial position as at 31 December 2012. (6 marks)

(Total: 17 marks)

2. 2014.P2A.Q6

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

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

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

(i) All goods were sold on credit and sales were evenly spread throughout the year. All goods were sold at the uniform margin of 60% on sales.

(ii) The average trade receivables collection period was 2 months.

(iii) All purchases were on credit and the average trade payables turnover was 9 times.

(iv) Advertising expenses of $8000, rental expense of $37 200 and salaries of $144 000 were incurred in 2013. No compensation would be received for the fire loss.

(v) Depreciation is to be provided at the annual rate of 20% using the reducing-balance method.

REQUIRED:

(a) Prepare for Peter's business the income statement for the year ended 31 December 2013, showing all the necessary items including sales, purchases and inventory loss. (9 marks)

(b) Although accounting ratios are useful tools in financial analysis, there are limits to their usefulness. State two of these limitations. (2 marks)

(Total: 11 marks)

3. 2016.P2A.Q9

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

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

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

Additional information:

(i) As at 31 December 2015, the amount due from customers and the amount due to suppliers were $166 240 and $142 370 respectively.

(ii) The bank reconciliation statement as at 31 December 2015 showed that unpresented cheques for 2015 purchases and uncredited deposits for 2015 sales were $14 800 and $21 520 respectively.

(iii) The monthly office rent increased by $5800 as from 1 January 2016. The rent for January 2016 was paid in December 2015.

(iv) Salaries of employees for December 2015 amounting to $44 750 were to be paid on 3 January 2016.

(v) A physical inventory count on 31 December 2015 showed that inventory included 45 computers costing $8000 each and 25 printers costing $720 each.

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

(vi) Office equipment is to be depreciated at a rate of 40% per annum using the reducing balance method. Its residual value was estimated to be $6000.

(vii) The bank loan was acquired on 1 September 2015 and is to be repaid on 31 October 2016.

REQUIRED:

(a) Prepare for HK Company,

(i) An income statement for the year ended 31 December 2015; and (10 marks)

(ii) A statement showing the calculation of the amount of working capital as at 31 December 2015. (6 marks)

(b) Briefly comment on the working capital situation of HK Company as at 31 December 2015. (2 marks)

(c) Calculate the total assets turnover (to two decimal places) of HK Company for 2015. (2 marks)

4. 2017.P2A.Q7

Mark started his business as a sole proprietor on 1 January 2015. All purchases and sales were made on credit.

On 31 December 2016, a fire broke out in the warehouse. All inventory, except some goods costing $15 000, was destroyed. Although many of the records were destroyed in the fire, the following information was available after investigation:

(i) Information on assets and liabilities was confirmed as follows:

	31.12.2015	31.12.2016
	$	$
Motor van, net	24 000	?
Inventory	143 000	15 000
Trade receivables	12 100	13 700
Trade payables	149 700	135 000
Accrued sundry expenses	2 440	2 180
Cash at bank	61 800	?

(ii) The balance as per bank statement as at 31 December 2016 was $99 180.

(iii) During 2016, receipts from customers $1 404 900 were banked, after payments of part-time staff salaries $89 400 and Mark's drawings $29 500.

(iv) The bank statements of 2016 showed that total payments made to trade suppliers amounted to $987 970. A cheque of $1200 issued in December 2016 for purchase of goods in 2016 was not presented until 10 January 2017.

(v) Sales were made at a gross profit margin of 30% in 2016, except for some outdated goods, costing $50 000, which were sold at cost.

(vi) A 2% term deposit was made by transferring $20 000 from the cash at bank account on 1 July 2016. The term deposit will mature on 1 July 2019.

(vii) The payment for rent and rates of $127 750 in 2016 included a rental deposit of $8000 for a short-term tenancy agreement.

(viii) During 2016, full-time staff salaries and sundry expenses of $129 000 and $42 800 respectively were paid.

(ix) In 2016, Mark injected $10 000 cash into the business and withdrew $70 000 from the bank for his personal use.

(x) The motor van was brought in by Mark at the commencement of the business. Depreciation is to be provided on the motor van at 20% per annum on cost.

REQUIRED:

(a) For Mark's business, prepare

(i) an income statement for the year ended 31 December 2016, and (10 marks)

(ii) a statement of financial position as at 31 December 2016, showing the change in capital during the year. (7 marks)

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

(Total: 20 marks)

5. 2019.P2A.Q5

On 1 January 2018, Mr Lee started City Trading Company. He did not keep proper accounting records for his business but the following information relating to the year 2018 is available.

(i) Information extracted from the bank statements for 2018 shows:

	$	$
Collection from customers		782 320
Less: Drawings by Mr Lee	30 200	
Payment to suppliers	202 000	
Payment for operating expenses	223 730	
Purchase of equipment	80 000	
Dishonoured cheque	28 610	564 540
Balance as at 31 December 2018		217 780

(ii) All sales and purchases were made on credit. There were no accounting records for outstanding trade receivables and trade payables. Based on the information confirmed by customers and suppliers, total trade receivables and total trade payables as at 31 December amounted to $88 100 and $101 680 respectively.

(iii) A cheque for $28 610, received from a customer, was dishonoured in late December 2018 but the confirmation from the customer had not been updated accordingly.

(iv) A cheque for $31 080 issued to a supplier in early December 2018 had neither been presented for payment nor updated by the supplier.

(v) The residual value of the equipment is $5 000. Depreciation of 10% per annum is to be provided on equipment using the reducing-balance method. A full year's depreciation is to be provided in the year of acquisition.

(vi) All goods were sold at a mark-up of 110%. During the year, Mr Lee had taken goods at an invoiced price of $17 640 for his personal use.

REQUIRED:

(a) Based on the above information, prepare separate statements to calculate the following items:

(i) sales for the year 2018 (2 marks)

(ii) purchases for the year 2018 (2 marks)

(iii) net book value of equipment as at 31 December 2018 (2 marks)

(iv) drawings by Mr Lee during 2018 (2 marks)

(b) With reference to a relevant accounting principle or concept, explain why a business has to provide depreciation for equipment. (3 marks)

(Total: 11 marks)

6. 2020.P2A.Q8

(A) Mr Lau is a sole trader engaged in the garment business. Because of a fire in December 2019, some of the inventory and accounting records of the business were lost. After reviewing the books, the following information is available:

(i) Some account balances of the business as at 31 December were as follows:

	2019	2018
	$	$
Equipment	?	1 250 000
Accumulated depreciation - equipment	?	517 075
Inventory	65 000	40 000
Trade receivables	179 000	158 500
Trade payables	120 000	117 700
Bank	?	187 500
Cash	8 050	6 000
Prepaid operating expenses	3 000	--
Prepaid administrative expenses	7 200	--
Accrued administrative expenses	--	4 300
Allowance for doubtful debts	?	2 000

(ii) Sales were made both on credit and in cash while purchases were made on credit only. All goods were sold at a uniform mark-up of 50% in 2019.

(iii) A summary of all receipts and payments made in the bank account for the year ended 31 December 2019 was verified as below:

Receipts	$
Cash deposits	120 000
Receipts from credit customers	950 000
Payments	$
Operating expenses	150 000
Administrative expenses	160 000
Payments to suppliers	840 000

(iv) During the year, all cash receipts were from cash sales and the following payments were made in cash:

	$
Drawings	42 000
Administrative expenses	21 500

(v) Goods returned by credit customers and the business's returns to suppliers during 2019 amounted to $24 000 and $16 500 respectively.

(vi) An allowance for doubtful accounts of 1% of trade receivables was to be provided on 31 December 2019.

(vii) The insurance company agreed to compensate the business for 75% of the inventory destroyed in the fire.

(viii) On 1 November 2019, a set of old equipment was traded in for a new model at a trade-in value of $2 100. The old equipment was acquired on 1 March 2016 at $25 000. The purchase price of the new equipment was $36 200 and the outstanding amount would be settled in January 2020.

It is the business's policy to provide depreciation on equipment at a rate of 30% per annum on a reducing-balance basis. A full year's depreciation on equipment is to be provided in the year of acquisition but none in the year of disposal.

REQUIRED:

(a) Prepare the income statement for the year ended 31 December 2019. (10 marks)

(b) Prepare the statement of financial position as at 31 December 2019. (8 marks)

(B) State two transactions that would increase the cash or bank balances of a business without affecting its net profit. (2 marks)

(Total: 20 marks)

7. 2021.P2A.Q5

Tracy operates a business as a sole trader. The account balances as at 1 April 2020 are extracted as follows:

	$
Trade receivables	25 000
Trade payables	16 000
Inventory	22 000
Bank	335 900
Cash	49 600

Information relating to the transactions made during the year ended 31 March 2021 is as follows:

(i) All sales and 75% of purchases were made on credit. All goods were sold at a uniform mark-up of 200%.

(ii) Total sales amounted to $320 000.

(iii) Credit notes issued amounted to $5 600.

(iv) Except cash purchases, all receipts and payments were made through the bank as shown below:

	$
Receipts from trade receivables	298 000
Payments to trade payables	80 000
Payments for operating expenses	150 000

(v) Ken is both a customer and a supplier of Tracy. On 25 March 2021, they agreed to set off $320 in the trade receivables account against the trade payables account in Tracy's books.

(vi) The physical inventory count took place on 6 April 2021 and the amount of inventory was $34 000. From 1 April to 6 April 2021, goods with a cost of $15 000 were sold, goods amounting to $13 000 were purchased and returns outwards were $2 000.

(vii) A warehouse was rented for storing goods at a monthly rental of $7 500. The bookkeeper had overlooked this and the rental for March was paid in April 2021.

REQUIRED:

Prepare:

(a) The trade receivables account for the year ended 31 March 2021. (3 marks)

(b) A statement to calculate the total purchases for the year ended 31 March 2021. (3 marks)

(c) The trade payables accout for the year ended 31 March 2021. (2 marks)

(d) A statement to calculate the working capital as at 31 March 2021 by listing the components of total current assets and total current liabilities. (4 marks)

2022

8. Wing is a sole owner of a pillow retail shop. The business financial year ends on 31 March. The business had not kept proper accounting records since the resignation of the shop manager on 1 January 2022. Wing sorted out the documents and the following information for the quarter ended 31 March 2022 was confirmed:

(i) All purchases were made on credit and settled by cheque. Sales were made on both cash and credit basis. All goods were sold at a mark-up of 50%.

(ii) On 31 March 2022, a physical inventory count in the warehouse showed that the inventory was valued at $81 000. Subsequent investigation showed the following issues:

(1) Pillows invoiced at $32 400, after deducting a trade discount of 10% off the normal selling price, were sent to a customer on a sale-or-return basis and recorded as credit sales on 22 March 2022. On 30 March 2022, the customer confirmed to return all goods in April 2022.

(2) Some pillows costing $15 000 were kept in the retail shop on 31 March 2022.

(3) It was discovered that some pillows costing $13 000 were defective. They could be sold for $9 800 only after replacing the pillow covers at $1 400 and paying additional selling expenses of $600.

(iii) Trade receivables balances as at 1 January 2022 and 31 March 2022 were $162 000 and $110 400 respectively.

(iv) The following information was summarised from the bank statements for the quarter ended 31 March 2022:

		$
Receipts:	Cash sales	9 000
	Cheques from customers	292 000
Payments:	Cheques to suppliers	74 350

(v) Cash sales were banked after paying miscellaneous expenses of $1 100 per month.

(vi) The outstanding amounts as at 1 January 2022 and 31 March 2022 confirmed by suppliers were $58 000 and $42 000 respectively. In January 2022, the company received 9% discounts on purchases of $30 000 for early settlement.

(vii) On 31 March 2022, the supplier agreed to give a purchase allowance of $1 750 to Wing as compensation for the late delivery in February.

(viii) On 1 January 2022, the balance of the allowance for doubtful accounts was $3 100. On 31 March 2022, the following ageing schedule of the trade receivables is available:

Age of trade receivables	Amount of trade receivables	Estimated doubtful debts
less than 31 days	$70 400	2%
31 days and over	$40 000	10%
	$110 400	

After the preparation of the ageing schedule, a customer who made a purchase for $3 900 on 1 January 2022 was declared bankrupt. Wing decided to write this debt off on 31 March 2022.

REQUIRED:

(a) Prepare statements to calculate:

(1) the adjusted inventory value as at 31 March 2022. (4 marks)

(2) the total sales for the quarter ended 31 March 2022. (4 marks)

(b) Prepare the following accounts for the quarter ended 31 March 2022:

(1) trade payables (4 marks)

(2) allowance for doubtful accounts (4 marks)

(3) bad debts (1 mark)

Due to an economic downturn, Wing is considering increasing the allowance for doubtful accounts as at 31 March 2022.

(c) With reference to the most relevant accounting principle or concept, explain whether she should do so. (3 marks)

(Total: 20 marks)

CE Questions

1. 1994.Q2

Workings

(W1) Debtors

1994		$	1994		$
Apr 1	Bal b/d	15,648	Apr 30	Cash (balancing fig.)	72,234
30	Sales	64,725	30	Bal c/d	8,139
		80,373			80,373

(W2) Creditors

1994		$	1994		$
Apr 30	Cash (balancing fig.)	13,452	Apr 1	Bal b/d	10,872
30	Bank	6,200	30	Purchases	21,403
30	Bal b/d	12,623			
		32,275			32,275

Cash (Not required by the question. For your reference only)

1994		$	1994		$
Apr 1	Bal b/d	2,281	Apr 30	Creditors (credit purchases)	13,452
30	Debtors (credit sales)	72,234		Purchases (cash purchases)	1,040
	Sales (cash sales)	4,240		Bank	25,000
				Electricity	528
				Drawings	3,000
				Salary of cashier	5,450
				Cash shortage (Balancing fig.)	26,980
				Bal c/d	3,305
		78,755			78,755

Mr Wong
Statement of calculating the cash shortage
for the month ended 30 April 1994

	$	$
Cash balance as at 1 Apr 1994		2,281
Add: Receipts from debtors (W1)	72,234	
Cash sales	4,240	76,474
		78,755
Less: Payments to creditors (W2)	13,452	
Cash purchases	1,040	
Cash deposited	25,000	
Electricity	528	
Drawings	3,000	
Salary of cashier	5,450	48,470
Cash balance as at 30 Apr 1994		30,285
Less: Cash in hand on 30 Apr 1994		3,305
Cash shortage		26,980

2. 2000.Q5

(a)

		$	
Closing balance of trade debtors		73 500	½
Add:	Receipts from trade debtors	995 000	½
		1 068 500	
Less:	Opening balance of trade debtors	42 000	½
Sales for 3 months to 31 March 2000		1 026 500	½
			(2)

(b)

Bank

		$		$	
½	Balance b/d	69 300	Operating expenses	160 400	½
½	Trade debtors	995 000	Misappropriated cash	10 000	½
			Trade creditors (*bal. fig.*)	838 250	½
			Balance c/d	55 650	½
		1 064 300		1 064 300	(3)

(c)

		$	
Opening stock at cost		84 600	½
Add:	Purchases	848 040	2
Cost of goods sold and stock stolen		932 640	
Less:	Cost of goods sold ($1 026 500 × 75%)	769 875	1½
Cost of stock stolen		162 765	1
			(5)

		$	
Closing balance of trade creditors		88 900	(½)
Add:	Payments to trade creditors	838 250	(½)
		927 150	
Less:	Opening balance of trade creditors	79 110	(½)
Purchases for 3 months to 31 March 2000		848 040	(½)

Total: 10 marks

Alternative Answer

(a)

Trade debtors

		$		$	
½	Balance b/d	42 000	Bank	995 000	½
½	Sales	1 026 500	Balance c/d	73 500	½
		1 068 500		1 068 500	(2)

(b)

Bank

		$		$	
½	Balance b/d	69 300	Operating expenses	160 400	½
½	Trade debtors	995 000	Misappropriated cash	10 000	½
			Trade creditors (*bal. fig.*)	838 250	½
			Balance c/d	55 650	½
		1 064 300		1 064 300	(3)

(c)

Trading account
for the three months ended 31 March 2000

		$		$	
½	Opening stock	84 600	Sales	1 026 500	½
2	Purchases	848 040			
		932 640			
1	Less: Closing stock (stolen)	162 765			
	Cost of goods sold	769 875			
1	Gross profit ($1 026 500 × 25%)	256 625			
		1 026 500		1 026 500	(5)

Trade creditors

		$		$	
(½)	Bank	838 250	Balance b/d	79 110	(½)
(½)	Balance c/d	88 900	Purchases	848 040	(½)
		927 150		927 150	

3. 2001.Q4

Mannix Company

Trading and profit and loss account for the month ended 31 March 2001

		$	$	
Sales ($175 000 + 114 000)			289 000	1½
Less: Cost of goods sold				
	Purchases ($80 000 + 110 000)	190 000		2
	Less: Closing stock	12 000	178 000	1
Gross profit			111 000	
Less: Operating expenses				
	Provision for depreciation – office equipment			
	[($76 000 – 4000) ÷ 5 ÷12]	1 200		2
	Rent ($21 000 + 5000)	26 000		1½
	Miscellaneous expenses ($13000 + 5900)	18 900	46 100	1½
Net profit			64 900	½

Total: 10 marks

4. 1992S.Q9

(a) Che Sang

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

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

(b) Statement of the amount of insurance claim

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

(c) Journal

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

5. 1992.Q10

(a)

Trading and profit and loss account ½
for the ten months ended 31 December 1991 ½

		$		$	
1	Purchases	271 880	Sales	267 980	2½
½	Less: closing stock	64 320	(6000 + 261 980)		
½	COGS	207 560	1 1½		
	GP	60 420			
		267 980		267 980	
1	Rent (6000 × 10 × ½)	30 000	Gross profit	60 420	
1	Electricity, water & other expenses (8000 × ½)	4 000			
2½	O/D interest (4672 + 4766 + 1261)	10 699			
1	Provision for depreciation - office equipment (36 000 × 25%)	9 000			
1	Provision for doubtful debts (80 780 × 5%)	4 039			
½	Bad debts	1 200			
	Net profit	1 482			
		60 420		60 420	(11½)

(b)

Balance sheet as at 31 December 1991

	$	$		$
Assets			Capital	170 000
Office equipment	36 000		Add: Net profit	1 482
Less: Depreciation	9 000	27 000		171 482
Stock			Less: Drawings	83 000
Debtors	80 780		(25 000 + (108 000 x1/2) + (8000 x 1/2))	
Less: Provision for bad debts	4 039	76 741		88 482
Prepaid rent		24 000	Liabilities	
Cash		18 000	Creditors	57 260
			Bank overdraft	63 058
			Accrued overdraft interest	1 261
		210 061		210 061

(8.5 marks)

Total: 20 marks

Working

Debtors

1991		$	1991		$
Dec 31	Sales	261 980	Dec 2	Bank	180 000
			Dec 31	Bad debts	1 200
			Dec 31	Bal c/d	80 780
		261 980			261 980
1992 Jan 1	Bal b/d	80 780			

Cash on hand

1991		$	1991		$
Mar 1	Capital	170 000	Mar 1	Bank	150 000
Dec 31	Sales	6 000	Dec 31	Electricity	8 000
			Dec 31	Bal c/d	18 000
		176 000			176 000
1992 Jan 1	Bal b/d	18 000			

Bank

1991		$	1991		$
Mar 1	Cash	150 000	Mar 2	Rent	108 000
Dec 2	Debtors	180 000	Jun 5	Office equipment	36 000
Dec 31	Bal c/d	63 058	Oct 1	Drawings	25 000
			31	Creditors	214 620
			Nov 1	O/D interest (Note 1)	4 672
			Dec 1	O/D Interest (Note 2)	4 766
		393 058			393 058
			1992 Jan 1	Bal b/d	63 058

Note 1 : [(108 000 + 36 000 + 25 000 + 214 620) – 150 000] × 2%

Note 2 : [(108 000 + 36 000 + 25 000 + 214 620 + 4672) – 150 000] × 2%

Creditors

1991		$	1991		$
Oct 31	Bank	214 620	Dec 31	Purchases	271 880
Dec 31	Bal	57 260			
		271 880			271 880
			1992 Jan 1	Bal	57 260

Accrued O/D interest = 63 058 × 2% = 1261 ½

6. 1995.Q9

(a) Cash book

		Cash	Bank		Cash	Bank	
		$	$		$	$	
½	Capital	–	200 000	Office equipment	–	98 000	½
½	Debtors	–	108 200	Fixtures and fittings	–	38 000	½
½	Cash sales banked	–	140 800	Purchases	–	237 000	½
½	Cash sales	207 100	–	Rent and rates	–	18 000	½
				Electricity	–	6 000	½
				Sundry expenses	3 200	13 500	½
				Wages	23 000	–	½
				Travelling	2 100	–	½
				Drawings	38 000	–	½
				Cash sales banked	140 800	–	½
				Balance c/d		38 500	
		207 100	449 000		207 100	449 000	(7)

(b) Trading and Profit and Loss Account for the year ended 31 March 1995

		$		$	
1	Purchases	272 600	Sales ($207 100 + $140 400)	347 500	
½	Less: Closing stock	29 350	(½) (1)		
		243 250			
	Gross profit c/d	104 250			
		347 500		347 500	
½	Rent and rates	18 000	Gross profit b/d	104 250	
½	Electricity	6 000	Discounts received	2 100	½
½	Wages	23 000			
½	Sundry expenses	16 700			
½	Travelling	2 100			
½	Discounts allowed	2 800			
½	Bad debts	1 200			
	Prov. for depreciation:				
½	Office equipment	19 600			
½	Fixtures and fittings	3 800			
	Net profit	13 150			
		106 350		106 350	(8)

(c)

Balance sheet as at 31 March 1995

		$	$		$	
	Fixed Assets			**Capital**		
½	Fixed and fittings	38 000		Capital introduced	200 000	½
½	Less: Prov. for depreciation	3 800	34 200	Add: Net profit for the year	13 150	
½	Office equipment	98 000			213 150	
½	Less: Prov. for depreciation	19 600	78 400	Less: Drawings	38 000	½
			112 600		175 150	
	Current Assets			**Current Liabilities**		
½	Stock	29 350		Trade creditors	33 500	½
½	Trade debtors	28 200				
½	Bank	38 500	96 050			
			208 650		208 650	(5)

Total: 20 marks

Workings

Debtors control account

	$		$
Credit sales	140 400	Cash	108 200
		Discount allowed	2 800
		Bad debts	1 200
		Balance b/d	28 200
	140 400		140 400

Creditors control account

	$		$
Cash	237 000	Purchases	272 600
Discounts received	2 100		
Balance c/d	33 500		
	272 600		272 600

7. 1997.Q9

(a)

Bank account

		$		$		
½	Proceeds from sale of furniture	37 500	Balance b/d	31 500	½	
	Debtors (difference)	534 290	Wages	81 000	½	
			Suppliers of goods	377 100	½	
			Rent, rates and electricity	15 150	½	
			Sundry expenses	11 190	½	
			Purchase of furniture and fixtures (\$61 500+\$20 000–\$43 500)	38 000	1½	
			Balance c/d	17 850	½	(5)
		571 790		571 790		

(b)

Mr Lee

Trading and profit and loss account for the year ended 30 April 1997

		$		$		
½	Opening stock	63 450	Sales (W2)	592 540	1½	
1½	Add: Purchases(W1) (385050-9000)	376 050				
		439 500				
	Less: Closing stock	53 400				
	Cost of goods sold	386 100				
	Gross Profit c/d	206 440				
		592 540		592 540		
½	Wages	81 000	Gross profit b/d	206 440		
1½	Rent, rates and electricity (W3)	15 225	Profit on sale of furniture			
½	Sundry expenses	11 190	(\$37 500 – \$18 000)	19 500	1	
1	Provision for depreciation (\$61 500 × 10%)	6 150				
	Net profit	112 375				
		225 940		225 940		(8½)

Mr Lee

Balance sheet as at 30 April 1997

	$	$	$	
Fixed assets				
Furniture and fixtures			61 500	½
Less: Provision for depreciation (4350–2000+6150)			8 500	1
			53 000	
Current assets				
Stock		53 400		½
Trade debtors		34 650		½
Prepayment		1 350		½
Bank		17 850		½
		107 250		
Less: **Current liabilities**				
Trade creditors	58 800			½
Accruals	1 050	59 850		½
Working capital			47 400	
			100 400	

Capital

Balance as at 1 May 1996 (W4)	77 025	1
Add: Net profit for the year	112 375	
	189 400	
Less: Drawings (9 000 + 80 000)	89 000	1
	100 400	

(6.5 marks)
Total: 20 marks

Workings:

(1)

Statement showing calculation of purchases for the year

	$	$	
Payment to creditors		377 100	
Add: Closing balance		58 800	½
		435 900	
Less: Opening balance	50 850		½
Drawings	9 000	59 850	½
To Trading a/c		376 050	

(2)

Statement showing calculation of sales for the year

	$	
Cash receipts (534 290 + 80 000)	614 290	½
Add: Closing balance of debtors	34 650	½
	648 940	
Less: Opening balance of debtors	56 400	½
To Trading a/c	592 540	

(3)

Rent, rates and electricity

			$		$		
½	[	Balance b/d	1 125	Balance b/d	750	}	
	[	Bank	15 150	Profit and loss	15 225	]	½
½	{	Balance c/d	1 050	Balance c/d	1 350	]	
			17 325		17 325		

(4)

Calculation of capital as at 1 May 1996

	$	$	
Furniture and fixtures		43 500	
Less: Provision for depreciation		4 350	
		39 150	
Stock		63 450	
Trade debtors		56 400	
Prepaid rates		1 125	
Total assets		160 125	½
Less: Trade creditors	50 850		
Accrued electricity	750		
Bank overdraft	31 500		
Total liabilities		83 100	½
Capital as at 1 May 1996		77 025	

8. 1998.Q7

Bank account

	$		$	
Balance b/d	64 650	Trade creditors	591 000	½
Trade debtors (W1)	869 700	Rent and rates	100 800	½
		Drawings	64 500	½
		Administration expenses	110 400	½
		Balance c/d	67 650	½
	934 350		934 350	(4)

Clara
Trading and profit and loss account for the year ended 31 March 1998

		$	$	
Sales ($540 000 ÷ 60%)			900 000	1
Opening stock		28 000		½
Add:	Purchases (W2)	660 000		2
		688 000		
Less:	Stock stolen	60 000		½
		628 000		
Less:	Closing stock	88 000		½
Cost of goods sold			540 000	
Gross profit			360 000	
Discounts received			18 000	½
			378 000	
Less:	Expenses			
	Rent and rates	105 300		½
	Discounts allowed	24 300		½
	Stock stolen	60 000		½
	Administration expenses (W3)	111 000		1
	Depreciation – Office premises	7 500		½
	– Delivery van ($75 000 – $30 000) × 20%	9 000	317 100	1
Net profit			60 900	(9)

Clara
Balance sheet as at 31 March 1998

		$	$	$	
Fixed assets					
Office premises			150 000		½
Less:	Provision for depreciation		97 500	52 500	½
Delivery van			75 000		½
Less:	Provision for depreciation		39 000	36 000	½
				88 500	
Current assets					
Stock			88 000		½
Trade debtors			100 500		½
Prepaid expenses			1 200		½
Cash at bank			67 650		½
			257 350		
less:	Current liabilities				
	Trade creditors	114 000			½
	Accrued rent and rates (W4)	7 950	121 950		1
Working capital				135 400	
				223 900	
Capital					
Balance as at 1 April 1997				227 500	½
Net profit for the year				60 900	½
				288 400	
Less:	Drawings			64 500	½
				223 900	(7)

(Total: 20 marks)

Workings:

Trade debtors

	$		$
Balance b/d	94 500	Discount allowed	24 300
Sales ($540 000 ÷ 60%)	900 000	Bank (balancing figure)	869 700
		Balance c/d	100 500
	994 500		994 500

Trade creditors

	$		$
Discount received	18 000	Balance b/d	63 000
Bank	591 000	Purchases (balancing figure)	660 000
Balance c/d	114 000		
	723 000		723 000

Administration expenses

	$		$
Balance b/d	1 800	Profit and loss	111 000
Bank	110 400	Balance c/d	1 200
	112 200		112 200

Rent and rates

	$		$
Bank	100 800	Balance b/d	3 450
Balance c/d	7 950	Profit and loss	105 300
	108 750		108 750

9. 1999.Q10

(a)

Statement showing the calculation of cash stolen

			$	$	
(i)	**Cash**				
	Balance as at 28 February 1999			4 276.80	½
	Add:	Cash takings 1 to 15 March 1999 ($39 317 + 45223 + 7132) × 120%		110 006.40	2½
				114 283.20	
	Less:	Salaries	15 000.00		1
		Electricity	3 180.00		1
		Takings banked [($39317 + 45223) × 120% – 15000 – 3180]	83 268.00	101 448.00	2½
	Balance as at 15 March 1999			12 835.20	
				$	
(ii)	**Petty cash**				
	Balance as at 28 February 1999			503.60	½
	Add:	Restoration of balance		496.40	1
				1 000.00	
	Less:	Disbursements		401.70	1
	Balance as at 15 March 1999			598.30	

Total cash stolen = $12 835.20 + $598.30 1

= $13 433.50 (11)

(b)

Statement showing the calculation of bank balance as at 15 March 1999

		$	$	
Balance as at 28 February 1999			98 627.60	½
Add:	Cash takings banked	83 268.00		1
	Receipts from debtors [($169400 + 208500) × 122% × 70% + 46103.80]	368 830.40	452 098.40	3
			550 726.00	
Less:	Payment to creditors ($414905.80 – 26245.30)	388 660.50		2
	Rent	81 000.00		1
	Restoration of petty cash balance	496.40	470 156.90	1
Balance as at 15 March 1999			80 569.10	½
				(9)

10. 2005.Q7

(a)

Calculation of the amount of cash loss on 31 March 2005

			$	$	
Trade debtors at 1 April 2004				54 000	1
Add:	Credit sales [($54 000+101 700) ÷ 2 ÷ 1.5 × 12]			622 800	2
				676 800	
Less:	Bad debts		8 720		1
	Discounts allowed		20 642		1
	Trade debtors at 31 March 2005		101 700	131 062	1
Cash receipts from debtors				545 738	
Cash sales ($21 975 × 12)				263 700	1
Sales proceeds of office equipment				30 000	1
				839 438	
Less:	Rent and rates ($91 200 + $1800)		93 000		1
	Selling and distribution expenses ($10 990 – $490)		10 500		1
	Administrative expenses ($219 700 – $13 000)		206 700		1
	Cash purchases ($10 000 × 12)		120 000		1
	Drawings		20 000	450 200	1
				389 238	
Add:	Cash at 1 April 2004			5 120	1
				394 358	
Less:	Cash at 31 March 2005			38	1
Cash that should have been banked				394 320	
Less:	Cash actually banked				
	Bank balance at 31 March 2005		41 000		1
	Add:	Payment for credit purchases	381 000		1
		Purchase of office equipment	28 000		1
			450 000		
	Less:	Bank balance at 1 April 2004	60 380		1
				389 620	
Cash loss				4 700	1
					(20)

(b)

Calculation of amount of stock loss on 31 March 2005

	$	$	
Stock at 1 April 2004		30 800	1
Add: Credit purchases			
Trade creditors at 31 March 2005	31 000		1
Add: Payments for credit purchases	381 000		1
	412 000		
Less: Trade creditors at 1 April 2004	27 000		1
	385 000		
Add: Cash purchases	120 000	505 000	1
Cost of goods available for sale		535 800	
Less: Cost of goods sold [($622 800 + $263 700) ÷ 180%]		492 500	2
Stock at 31 March 2005		43 300	
Less: Salvaged stock		16 300	1
Stock loss		27 000	1
			(9)

Alternative Answer

(a)

Cash

		$		$	
1	Balance b/d	5 120	Rent and rates ($91 200 + $1800)	93 000	1
1	Cash sales ($21 975 × 12)	263 700	Selling and distribution expenses ($10 990 – $490)	10 500	1
1	Sale proceeds of office equipment	30 000	Administrative expenses ($219 700 – $13 000)	206 700	1
6	Receipts from debtors (w1)	545 738	Cash purchases ($10 000 × 12)	120 000	1
			Drawings	20 000	1
			Cash banked (w2)	389 620	4
			Cash loss *(balancing figure)*	4 700	1
			Balance c/d	38	1
		844 558		844 558	(20)

(b)

Trading account for the year ended 31 March 2005.

	$	$	
Sales: Credit sales [($54 000+101 700) ÷ 2 ÷ 1.5 × 12]		622 800	
Cash sales ($21975 × 12)		263 700	
		886 500	
Less: Cost of goods sold ($886 500 ÷ 180%)			
Opening stock	30 800		1
Add: Credit purchases (w3)	385 000		3
Cash purchases ($10 000 × 12)	120 000		1
	535 800		
Less: Closing stock	16 300		1
Stock loss *(balancing figure)*	27 000		1
		492 500	2
Gross profit ($886 500 × 80/180)		394 000	
			(9)

Workings

(w1) **Debtors**

		$		$	
1	Balance b/d	54 000	Bad debts	8 720	1
2	Credit sales [($54 000+101 700) ÷ 2 ÷ 1.5 × 12]	622 800	Discounts allowed	20 642	1
			Cash *(balancing figure)*	545 738	
			Balance c/d	101 700	1
		676 800		676 800	(6)

(w2) **Bank**

		$		$	
1	Balance b/d	60 380	Trade creditors	381 000	1
	Cash banked *(balancing figure)*	389 620	Purchase of office equipment	28 000	1
			Balance c/d	41 000	1
		450 000		450 000	(4)

(w3) **Creditors**

		$		$	
1	Bank	381 000	Balance b/d	27 000	1
1	Balance c/d	31 000	Credit purchases *(balancing figure)*	385 000	
		412 000		412 000	(3)

11. 2007.Q5

(a)

	Bank	$		$	
½	Balance b/d	107 750	Trade creditors	1 839 000	½
3	Trade debtors (W1)	2 345 000	Selling expenses	182 240	½
			Administrative expenses	109 120	½
			Drawings	18 000	½
			Balance c/d	304 390	½
		2 452 750		2 452 750	

(6)

(b)

George Ho
Trading and profit and loss account for the year ended 31 March 2007 ½

	$	$	
Sales		2 390 000	½
Opening stock	284 000		½
Add: Purchases (W2)	1 848 000		1
	2 132 000		
Less: Drawings	20 000		1
Stock stolen (*balancing figure*)	412 000		1
	1 700 000		
Less: Closing stock	212 000		½
Cost of goods sold [(284 000 + 212 000) ÷ 2 ÷ 2 × 12]		1 488 000	2½
Gross profit		902 000	½
Discounts received		16 000	½
		918 000	
Less: Selling expenses (182 240 – 5750 + 7020)	183 510		1
Administrative expenses (109 120 + 3000 – 3360)	108 760		1
Discounts allowed	21 060		½
Depreciation – motor vehicles [420 000×10% +180 000×10%×1/12]	43 500		1
Stock stolen	412 000	768 830	½
Net profit		149 170	½

(13)

(c)

George Ho
Balance sheet as at 31 March 2007 ½

	$	$	$	
Fixed assets				
Motor vehicles (420 000 + 180 000)		600 000		1
Less: Accumulated depreciation (252 000 + 43 500)		295 500	304 500	1
Current assets				
Stock		212 000		½
Trade debtors		181 440		½
Prepaid administrative expenses		3 360		½
Bank		304 390		½
		701 190		
Less: **Current liabilities**				
Trade creditors	98 000			½
Other creditors	180 000			1
Accrued selling expenses	7 020	285 020		½
Working capital			416 170	
			720 670	
Capital, as at 1 April 2006 (W3)			609 500	2½
Add: Net profit for the year			149 170	½
			758 670	
Less: Drawings (18 000 + 20 000)			38 000	½
			720 670	

(10)

Total: 29 marks

Workings

W1

Trade debtors

		$		$	
½	Balance b/d	157 500	Bank (*balancing figure*)	2 345 000	
1½	Sales (560 000 + 530 000 + 620 000 + 680 000)	2 390 000	Discounts allowed	21 060	½
			Balance c/d	181 440	½
		2 547 500		2 547 500	

W2

Trade creditors

		$		$	
½ {	Discounts received	16 000	Balance b/d	105 000	]
{	Bank	1 839 000	Purchases (*balancing figure*)	1 848 000	
½ [	Balance c/d	98 000			
		1 953 000		1 953 000	

W3

Statement to show the calculation of capital as at 1 April 2006

	$	$	
Motor vehicles, at cost		420 000	} ½
Stock, at cost		284 000	}
Trade debtors		157 500	] ½
Prepaid administrative expenses		3 000	]
Bank		107 750	} ½
		972 250	
Less: Accumulated depreciation	252 000		}
Trade creditors	105 000		] ½
Accrued selling expenses	5 750	362 750	]
		609 500	

DSE Questions

1. 2013.P2A.Q5

(a)

Mr Luk

Income statement for the year ended 31 December 2012

	$	$	0.5
Sales ($953 800 x 140%)		1 335 320	0.5
Less: Cost of goods sold			
Opening inventory	123 000		0.5
Purchases (W1)	941 700		1.5
	1 064 700		
Less: Closing inventory	110 900		0.5
		953 800	
Gross Profit (40% on cost)		381 520	0.5
Less: Expenses			
Administrative expenses ($226 000 + $1150)	227 150		1
Selling expenses ($64 300 + $44 000 + $20 000)	128 300		1.5
Bank charges	20 050		0.5
Cash loss ($99 220 (W2)/2)	49 610		3
Depreciation	37 500	462 010	0.5
Net loss		(81 090)	0.5
			(11)

(11)

(b)

Mr Luk

Statement of financial position as at 31 December 2012

	$	$	0.5
Non-current assets			
Office equipment, at cost		187 500	0.5
Less: Accumulated Depreciation		75 000	0.5
		112 500	
Current assets			
Inventory	110 900		0.5
Insurance claim receivable	49 610		0.5
Cash at bank ($392 100 + $1 203 000 - $1 419 100)	176 000	336 510	1
		449 010	
Financed by			
Capital			
Balance as at 1 January 2012		547 000	0.5
Less: Net loss		(81 090)	0.5
		465 910	
Less: Drawings		120 850	0.5
		345 060	
Current liabilities			
Trade payables	102 800		0.5
Accrued administrative expenses	1 150	103 950	0.5
		449 010	

(6)

Total: 17 marks

(See next page for Workings W1 and W2)

(W1)

Trade payables

	$		$
Cash at bank *[Note 1]*	987,900	Balance b/d	149,000
Balance c/d	102,800	Purchases (balancing figure)	941,700
	1,090,700		1,090,700

(W2)

Cash

	$		$
Balance b/d	10,900	Cash at bank *[Note 2]*	1,203,000
Sales	1,335,320	Selling expenses	44,000
		Cash loss (balancing figure) *[Note 3]*	99,220
	1,346,220		1,346,220

Note 1: 評卷參考寫"bank"，但與(a)(ii) statement of financial position 所用的帳戶名稱並不對應。

Note 2: 評卷參考寫"cash deposited"，但對應帳戶名稱應為 "cash at bank"。

Note 3: 評卷參考寫"cash stolen"，但對應帳戶名稱應為 "cash loss" (見(a)(i) Income statement)。

2. 2014.P2A.Q6

(a)

Peter

Income statement for the year ended 31 December 2013

	$	$	0.5
Sales [($90 000 + $80 000) / 2 x (12 / 2))		510 000	1
Less: Cost of goods sold			
Opening inventory	75 000		0.5
Purchases [($18 000 + $32 000) / 2 x 9]	225 000		1
	300 000		
Less: Inventory loss (*balancing figure*)	31 000		1
Less: Closing inventory	65 000	204 000	0.5
Gross profit ($510 000 x 60%)		306 000	1
Less: Expenses			
Advertising expenses	8 000		0.5
Rental expenses	37 200		0.5
Salaries	144 000		0.5
Inventory loss	31 000		0.5
Depreciation expenses ($180 000 x 0.8 x 20%)	28 800	249 000	1
Net profit		57 000	0.5
			(9)

(b)

Limitations:
- Accounting ratios are calculated based on historical cost and hence may not fairly reflect current performance.
- Accounting ratios are calculated based on past financial information. Past performance of a company does not necessarily indicate its future performance.
- Accounting ratios are affected by accounting estimates.
- Differences in accounting policies will hinder inter-company comparisons.
- Accounting ratios can only identify the symptoms, but not the cause. They are not able to provide any suggestions or advice to solve the existing or future problems.
- Non-monetary but significant items, such as the quality of the products, leadership of the management and the business environment, are ignored.

(1 mark for each relevant limitation, max. 2 mars)

11 marks

3. 2016.Q9

HK Company

Income statement for the year ended 31 December 2015

	$	$	
Sales revenue (workings 1)		2 291 760	1
Less: Cost of goods sold			
Purchases (workings 2)	1 107 420		1
Less: Closing inventory	373 680		1.5
($45 x 8000 + $25 x 720) - $4320			
	373 680		
Less: Destroyed inventory	4 320	729 420	.5
Gross profit		1 562 340	
Less: Expenses			
Loss on destroyed inventory ($4320 x 20%)	864		1
Office rent [($792 300 - $5800) x 12/13]	726 000		1.5
Salaries ($700 900 + $44 750)	745 650		1
Loan interest expenses ($300 000 x 4% x 4/12)	4 000		1
Depreciation expenses ($76 000 x 40%)	30 400	1 506 914	1
Net profit		55 426	.5
			(10)

(Workings 1)

Trade receivables

	$		$
Sales (balancing figure)	2 291 760	Cash at bank ($2 104 000 + $21 520)	2 125 520
		Balance c/d	166 240
	2 291 760		2 291 760

(Workings 2)

Trade payables

	$		$
Cash at bank ($950 250 + $14 800)	965 050	Purchases (balancing figure)	1 107 420
Balance c/d	142 370		
	1 107 420		1 107 420

(a)(ii)

Statement showing the working capital as at 31 December 2015

	$	$	
Current assets			
Inventory	373 680		.5
Trade receivables	166 240		.5
Prepaid rent ($60 500 + $5800)	66 300		.5
Insurance receivable ($4320 x 80%)	3 456		.5
Cash at bank ($872 150 + $21 520 - $14 800)	878 870		1
Total current assets		1 488 546	
Less: Current liabilities			
Trade payables	142 370		.5
Accrued interest	4 000		.5
Accrued salaries	44 750		
Deposits received from customers	22 400		.5
4% Bank loan	300 000		.5
Total current liabilities		513 520	
Working capital		975 026	1

(6)

(b) Working capital situation of the company:
- Sufficient current asset to cover current liabilities
- Poor cash management/huge balance in cash at bank/ large amount of idle deposit
- May invest the excess cash to get higher return/may repay the bank loan earlier to avoid interest charges (2)

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

(c) Total asset turnover = Sales / Total assets
= $2 291 760 / [$1 488 546 + ($76 000 - $30 400)]
= $2 291 760 / $1 534 146
= 1.49 times (2)

(20 marks)

4. 2017.P2A.Q7

(a)(i)

Mark
Income statement for the year ended 31 December 2016

	$	$	
Sales ($1 523 800 + $13 700 - $12 100)		1 525 400	1.5
Less: Cost of goods sold			
Opening inventory	143 000		0.5
Add: Purchases ($989 170 + $135 000 - $149 700)	974 470		1.5
	1 117 470		
Less: Closing inventory	15 000		0.5
	1 102 470		
Less: Destroyed inventory (Balancing figure)	**19 690**	1 082 780	0.5
Gross profit ($1 525 400 - $50 000) x 30%		442 620	1
Add: Interest income		200	1
		442 820	
Less: Expenses			
Staff salaries ($129 000 + $89 400)	218 400		0.5
Rent and rates ($127 750 - $8000)	119 750		0.5
Sundry expenses ($42 800 + $2180 - $2440)	42 540		1
Inventory loss	**19 690**		0.5
Depreciation on motor van ($24 000/0.8) x 20%	6 000	406 380	1
Net profit		**36 440**	

(10)

(ii)

Mark
Statement of financial position as at 31 December 2016

	$	$	
Non-current Assets			
Motor van, net ($24 000 - $6000)		18 000	0.5
2% Term Deposit		20 000	0.5
		38 000	
Current Assets			
Inventory	15 000		0.5
Rental deposit	8 000		0.5
Interest receivable	200		0.5
Trade receivables	13 700		0.5
Cash at bank ($99 180 - $1200)	97 980	134 880	1
		172 880	

Capital

Balance as at 1 January 2016	**88 760**		0.5
Add: Capital injection	10 000		0.5
Add: Net profit for the year	**36 440**		0.5
	135 200		
Less: Drawings ($29 500 + $70 000)	(99 500)	35 700	0.5

Current Liabilities

Trade payables	135 000		0.5
Accrued sundry expenses	2 180	137 180	0.5
		172 880	
			(7)

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

(3)

20 marks

REFERENCE: 2017.P2A.Q7 – Non HKEAA version (more detailed)

(a)(i)

Mark
Income Statement for the year ended 31 December 2016

	$	$	$
Sales (W2)			1,525,400
Less: Cost of goods sold			
Opening inventory		143,000	
Purchases (W1)		974,470	
		1,117,470	
Less: Closing inventory	15,000		
Inventory Loss	19,690	34,690	1,082,780
Gross Profit [($1,525,400 - $50,000) x 30%]			442,620
Add: Other Income			
Interest Revenue ($20,000 x 2% x 6/12)			200
Less: Expenses			
Staff salaries ($89,400 + $129,000)		218,400	
Rent and Rates ($127,750 - $8,000)		119,750	
Sundry expenses ($42,800 + $2,180 - $2,440)		42,540	
Depreciation expense: Motor Van ($24,000 / 80% x 20%)		6,000	
Inventory Loss		19,690	406,380
Net Profit			36,440

Workings

W1

Trade Payables

	$		$
Bank ($987,970 + $1,200)	989,170	Balance b/f	149,700
Balance c/f	135,000	Purchases	974,470
	1,124,170		1,124,170

W2

Trade Receivables

	$		$
Balance b/f	12,100	Bank ($1,404,9000 + $89,400 +$29,500)	1,523,800
Sales	1,525,400	Balance c/f	13,700
	1,537,500		1,537,500

(a)(ii)

Mark
Statement of financial position as at 31 December 2016

	$	$	$
Non-current Assets			
Motor Van, Cost ($24,000 / 80%)		30,000	
Less: Accumulated Depreciation (x)		12,000	18,000
2% Term Deposit			20,000
			38,000
Current Assets			
Inventory (i)		15,000	
Trade receivables (i)		13,700	
Accrued Interest Revenue (vi)		200	
Rental Deposit (vii)		8,000	
Cash at bank ($99,180 - $1,200) [*(ii) & (iv)]		97,980	
		134,880	
Less: Current Liabilities			
Accrued Sundry Expenses (i)	2,180		
Trade payables (i)	135,000	137,180	
Net Current Liabilities			(2,300)
			35,700
Financed by			
Capital, 1 January 2016 (Note 1)			88,760
Add: Introduction of Capital (ix)		10,000	
Net Profit for the year		36,440	46,440
Less: Drawings (ix),(iii) ($29,500 + $70,000)			99,500
			35,700

Note 1: You may find out this figure by balancing the statement of financial position, or by drafting a statement of affairs using the information provided in item (i).

Statement of affairs as at 1 January 2016

	$	$
ASSETS		
Motor Van, net		24,000
Inventory		143,000
Trade Receivables		12,100
Cash at Bank		61,800
		240,900
LESS: LIABILITIES		
Trade payables	149,700	
Accrued sundry expenses	2,440	152,140
Capital as at 1 January 2016		88,760

5. 2019.P2A.Q5

(a)(i)

Statement to calculate the sales for the year 2018

		$	
Balance of trade receivables as at 31 December 2018	($88 100 + $28 610)	116 710	1
Add: Receipts from customers	($782 320 - $28 610)	753 710	0.5
Sales for the year 2018		870 420	0.5
			(2)

(ii)

Statement to calculate the purchases for the year 2018

		$	
Balance of trade payables as at 31 December 2018	($101 680 - $31 080)	70 600	1
Add: Payments to suppliers	($202 000 + $31 080)	233 080	0.5
Purchases for the year 2018		303 680	0.5
			(2)

(iii)

Statement to calculate the net book value of equipment as at 31 December 2018

	$	
Cost of equipment	80 000	0.5
Less: Accumulated Depreciation ($80 000 x 10%)	8 000	1
Net book value as at 31 December 2018	72 000	0.5
		(2)

(iv)

Statement to calculate drawings by Mr Led during 2018

	$	
Drawings from bank	30 200	0.5
Drawings of inventory ($17 640 / 210%)	8 400	1
Drawings by Mr Lee during 2018	38 600	0.5
		(2)

Marking notes:

(a) Statement

- Used T-account or showing breakdown without descriptions: only mark the final answer, 0.5 mark awarded
- Wrong description on statement: no marks

2019.P2A.Q5

(b)	- Matching	1
	- Links revenue with its relevant expenses or costs	1
	- The use of equipment could generate revenue for the business, the cost of the equipment should therefore be allocated over its estimated useful life.	1
		(3)
		11 marks

Marking notes:
(b) Accounting concept
• Wrong spelling of the concept: no marks, continue marking the explanation
• Missing/Wrongly identified the concept: no need to mark the explanation
不予評分：企業應在獲取利潤的同時記錄因其所招致的費用。 利潤 =/= 收益

6. 2020.P2A.Q8
(A)(a)

Mr. Lau
Income statement for the year ended 31 December 2019

	$	$	$	
Sales ($994 500 + $185 550) (W1)			1 180 050	1.5
Less: Returns inwards			24 000	0.5
Net sales			1 156 050	
Less: Cost of goods sold				
Opening inventory		40 000		0.5
Add: Purchases (W2)	858 800			1
Less: Returns outwards	16 500	842 300		0.5
		882 300		
Less: Closing inventory		65 000		0.5
		817 300		
Less: Inventory loss (Balancing figure)		46 600		
			770 700	
Gross profit ($1 156 050 x 50% / 150%)			385 350	0.5
Add: Bad debts / Reduction in bad debts ($2 000 - $179 000 x 1%) [Note]			210	0.5
			385 560	
Less: Expenses				
Operating expenses ($150 000 - 3 000)		147 000		0.5
Administrative expenses ($160 000 - $7 200 - $4 300 + $21 500)		170 000		1
Inventory loss [$46 600 x (1 - 75%)]		11 650		1
Loss on disposal of equipment ($25 000 - $16 425 - $2 100)		6 475		1
Depreciation expenses - Equipment [($1 250 000 - $517 075 - $8 575 + $36 200) x 30%]		228 165	563 290	1
Net loss			(177 730)	
				(10)

(b)
Note: Marking scheme presents as NCA + (CA - CL) = Capital.
My recommended presentation: NCA + CA = Capital + NCL + CL

Mr. Lau
Statement of financial position as at 31 December 2019

	$	$	
Non-current assets			
Equipment ($1 250 000 - $25 000 + $36 200)		1 261 200	0.5
Less: Accumulated depreciation ($517 075 - $16 425 + $228 165)		728 815	0.5
		532 385	
Current assets			
Inventory	65 000		0.5
Prepaid expenses ($3 000 + $7 200)	10 200		0.5
Trade receivables, net ($179 000 - $1 790)	177 210		1
Insurance compensation receivable ($46 600 x 75%)	34 950		0.5
Bank (W4)	107 500		1
Cash	8 050	402 910	0.5
		935 295	
Financed by			
Capital, balance as at 1 January 2019 (W5)		1 000 925	1
Less: Net loss		**177 730**	0.5
		823 195	
Less: Drawings		42 000	0.5
		781 195	
Current liabilities			
Trade payables	120 000		0.5
Accounts payables ($36 200 - $2 100)	34 100	154 100	0.5
		935 295	
			(8)

(B) Transactions:
- capital injection in cash
- obtaining of a bank loan
- receipts from trade receivables
(1 mark for each relevant transaction, max. 2 marks) (2)

20 marks

Workings:

W1: Trade receivables

2019	$	2019	$
Balance b/d	158 500	Bank	950 000
Sales: credit sales (Balancing figure)	**994 500**	Returns inwards	24 000
		Balance c/d	179 000
	1 153 000		1 153 000

BAFS – Incomplete Record Answers

W1: Cash

2019	$	2019	$
Balance b/d	6 000	Bank	120 000
Sales: cash sales (Balancing figure)	**185 550**	Drawings ($3 500 x 12)	42 000
		Administrative expenses	21 500
		Balance c/d	8 050
	191 550		191 550

W2: Trade payables

2019	$	2019	$
Bank	840 000	Balance b/d	117 700
Returns outwards	16 500	Purchases (balancing figure)	**858 800**
Balance c/d	120 000		
	976 500		976 500

W3: Allowance for doubtful accounts

2019	$	2019	$
Bad debts	**210**	Balance b/d	2 000
Balance c/d	1 790		
	2 000		2 000

Note: The allowance method is applied.

W4: Bank

2019	$	2019	$
Balance b/d	187 500	Operating expenses	150 000
Cash	120 000	Administrative expenses	160 000
Trade receivables	950 000	Trade payables	840 000
		Balance c/d (balancing figure)	**107 500**
	1 257 500		1 257 500

W5:

Statement of affairs as at 1 January 2019

	$	$
Equipment, net ($1 250 000 - $517 075)		732 925
Inventory		40 000
Trade receivables, net ($158 500 - $2 000)		156 500
Bank		187 500
Cash		6 000
		1 122 925
Trade payables	117 700	
Accrued administrative expenses	4 300	122 000
Capital		**1 000 925**