Correction of error – AL Past paper – Answer

1. 2011.P1.Q5

Journal

		Dr	Cr	
		$	$	
(i)	Rental income [$300 000 – ($75 000 x 22/24 x 4)]	25 000		1
	Rental income receivables [$68 750 x 4 – ($300 000 - $75 000)	50 000		1
	Rental income deposit		75 000	1
(iii)	Accounts payables	61 200		.5
	Machinery ($45 000 + $16 200)		61 200	.5
	Machinery	22 500		.5
	Installation cost		12 500	.5
	Transportation cost		7 000	.5
	Insurance cost		3 000	.5
	Accumulated depreciation - machinery	6 450		.5
	Depreciation expenses		6 450	.5
	{[$450 000 – ($450 000 - $61 200 + 22 500)] x 20% x 10/12}			
(iv)	Retained profits (W1)	34 000		1.5
	Accumulated depreciation – motor car		34 000	1
	Depreciation expense – motor car	34 000		.5
	Accumulated depreciation – motor car		34 000	.5
	Accumulated depreciation – motor car	208 000		1
	Accounts receivable	95 000		.5
	Gain on disposal of motor car		33 000	.5
	Motor car		270 000	.5

Workings:

(W1): Motor car

Depreciation provided for 2006 to 2008 = ($270 000 - $18 000) / 9 x 3 = $84 000

Net book value at 1 January 2009: $270 000 – ($270 000 - $18 000) x 3/9 = $186 000

Depreciation after change in useful life = $186 000 / 3 = $62 000

Under-depreciation in 2009 and 2010: $62 000 - $28 000 = $34 000

(W2): Accumulated depreciation of the disposal motor car: ($84 000 + $124 000) = $208 000

2. 2008.P1.Q5

(a)

Journal

		Dr	Cr	
		$	$	
(i)	Trade payable – Nice Ltd	9 600		½
	Trade receivable – Nice Ltd		5 280	½
	Suspense		4 320	½
	Contra between sales and purchases ledger wrongly recorded			
(ii)	Suspense	6 400		½
	Profit and loss – discounts received		6 400	½
	Discount received omitted from general ledger			
(iii)	Suspense	84 000		½
	Profit and loss - sales		84 000	½
	Sales day book undercast			
(iv)	Profit and loss - sales	1 000		½
	Trade receivable – Sky Ltd		1 000	½
	Trade discount omitted			
(v)	Allowance for doubtful debts ($15 000 – $13 700)	1 300		½
	Profit and loss		1 300	½
	Decrease in allowance for doubtful debts for the year			
(vi)	Profit and loss - depreciation expense	5 000		1
	Accumulated depreciation – office equipment		5 000	½
	Depreciation up to the date of disposal			
	Accumulated depreciation – office equipment	36 000		½
	Office equipment		36 000	½
	Disposal of fully depreciated equipment			
	Motor vehicles	80 000		½
	Profit and loss – repair expense		80 000	½
	Repair expense on newly acquired motor vehicle capitalised			
	Profit and loss ($80 000 × 20%)	16 000		1
	Accumulated depreciation – motor vehicles		16 000	½
	Depreciation charge on omitted noncurrent asset			

(b) **Statement to show the calculation of revised profit for the year ended 31 December 2007**

		$	
Profit for the year		130 280	
(ii)	Discount received	6 400	½
(iii)	Sales undercast	84 000	½
(iv)	Sales overstated – trade discount	(1 000)	½
(v)	Decrease in allowance for doubtful debts	1 300	½
(vi)	Excess depreciation on office equipment	(5 000)	½
	Repairing expense capitalised	80 000	½
	Additional depreciation on new engine	(16 000)	½
Revised profit for the year		279 980	1½
			(5)

(c) Trial balance: max. 3

- Use: inequality of totals helps to indicate the existence of errors
- Limitation: certain errors, such as compensating errors, errors of original entries, will not be revealed by the trial balance

(3)

For reference only:

(vii) A bonus issue was made in January 2007 on the basis of one bonus share for every eight shares held. No entries had been made for this transaction.

		Dr	Cr	
(vii)	Share premium [(60 000 × 1/8) × $10]	75 000		1
	Ordinary share capital		75 000	½
	Bonus issue of 1 share for every 8 shares held			
				(12)

3. 2010.Q5(a),(c)

Journal

		Dr $	Cr $	
(i)	Returns inwards	12 000		.5
	Trade Receivable		12 000	.5
	Drawings	9 600		.5
	Purchases		9 600	.5
(iii)	Sales ($42 000 x 2/3 x 125%)	35 000		.5
	Trade Receivable		35 000	.5
(iv)	Trade Receivable	6 000		.5
	Returns inwards		6 000	.5
(v)	Sales	9 000		.5
	Trade Receivable		9 000	.5

		Dr	Cr	
(vii)	Trade Receivable	4 700		.5
	Bad debts		4 700	.5
	Cash	1 500		.5
	Machine	3 200		.5
	Trade Receivable		4 700	
(viii)	Cash loss	10 000		.5
	Discounts allowed	1 000		.5
	Trade Receivable		11 000	.5

(c)

- The supplier will issue a credit note to the customer when he agrees to take back the goods and refund the amount of returns to the customer. 1
- A credit note is issued by a supplier to record the details of returns inwards from a customer. Upon the issuance of this document, the customer's account in the book of the supplier will be credited with the amount of the allowance as stated in the credit note. 1

(2)

4. 2006.P1.Q5 (modified)

Journal

2005		Dr $	Cr $	
(ii)	Suspense	3 300		.5
	Rental revenue		3 000	.5
	Rental expenses		300	.5
	Correction of rental revenue in advance wrongly brought down from last year.			
(iii)	Office equipment (New)	1 300		.5
	Accumulated depreciation – office equipment ($19240 – 1480)	17 760		.5
	Loss on disposal	180		.5
	Office equipment (Old)		19 240	.5
	Correction of trade-in of office equipment wrongly recorded.			
	Depreciation expense (22 000 x 0.25)	5 500		.5
	Accumulated depreciation – office equipment		5 500	.5
	Depreciation on office equipment recorded.			
(vi)	Rental expenses	141 000		.5
	Rental premium ($90 000 x 2/36)		5 000	1
	Rental accrual ($72 000 x 34/36 x 2)		136 000	1
	Rental expense for the year recorded.			

(b) Accounting treatment for item (vi)

- Though no rental was paid during the two-month rent-free period, the company did incur rental expenses.
- According to the matching principle, the rental payable for the remaining 34 months should be spread over the entire tenancy period (36 months).
- The rental premium, being non-refundable, should also be written off over the tenancy period as rental expenses.

5. 2009.P1.Q4(d) (item (iv) only)

Rental deposit	30 000		.5
Rental premium ($60 000 x 24/36)	40 000		1
Profit and loss ($240 000 - $190 000*)		50 000	1
Rent accrued [($15 000 x 34) x 12/36 – ($15 000 x 10)]		20 000	.5

Being correction of the amount of rent expenses to be recognized in 2008

*Rental expense to be recognized:

[($15 000 x 34 months + $60 000)] x 12/36 = $190 000

1. 2011.P1.Q5 (Modified, deleted item (ii))

Rain Company is a trading company. Information relating to the company for the year ended 31 December 2010 before the physical inventory count and the preparation of the financial statements is as follows:

(i) Rain Company signed a two-year tenancy contract on 1 September 2010 to sublet part of its office from 1 September 2010 to 31 August 2012. According to the contract, monthly rental is $75 000 and a two-month rent-free period is allowed. The tenant is required to pay $75 000 on 1 September 2010 as rental deposit which is refundable at the end of the contract. During 2010, the total amount received from the tenant was $300 000 and had been recorded as rental income for the year ended 31 December 2010.

(iii) On 1 March 2010, Rain Company acquired a new machine with a list price of $450 000. The supplier had offered a trade discount of 10% and agreed to further provide a cash discount of 4% if the company could settle the balance within 20 days. The accountant recorded the list price of the machine in the books on the date of acquisition. On 19 March 2010, the company settled the balance and recorded the amount in the books accordingly. Depreciation of 20% per annum on the list price had been provided for the machine.

In 2010. In addition to the installation cost of $12 500 paid, transportation cost of $7000 and insurance cost of $3000 for the shipment of the new machine were also settled. During installation, an extra repair cost of $21 000 was paid for an accident caused by an employee's negligence. The accountant had charged all the above payments to the respective expense accounts.

(iv) Rain Company had only one motor car which was used for business purposes. The motor car was purchased on 1 January 2006 at a cost of $270 000. It was estimated to have a useful life of nine years and a residual value of $18 000. It is the company's policy to depreciate the motor car on a straight line basis.

On 1 January 2009, the company estimated the remaining useful life of the motor car to be three years with no residual value. The motor car was subsequently sold on 31 December 2010 for $95 000 on credit. Depreciation in 2009 and 2010 had been provided for based on its original useful life and residual value. No entries had been made in the books for the disposal of the motor car.

REQUIRED:

Prepare the journal entries necessary for correcting the errors and omissions above.

Narrations not required. (13 marks)

2. 2008.P1.Q5 (Exclude item (vii))

After preparing the income statement for the year ended 31 December 2007, the accountant of Wise Ltd found that the totals of the post-closing trial balance did not agree:

	Debit	Credit
	$	$
Office equipment - cost	328 000	
Office equipment - accumulated depreciation, 31 December 2007		174 000
Motor vehicles - cost	534 000	
Motor vehicles - accumulated depreciation, 31 December 2007		286 000
Inventory, 31 December 2007	247 000	
Trade payables		490 920
Trade receivables	691 280	
Allowance for doubtful debts, 31 December 2007		15 000
Bank	26 000	
$10 Ordinary shares		600 000
Share premium		100 000
Retained profits, 1 January 2007	56 000	
Profit for the year ended 31 December 2007		130 280
	1 882 280	1 796 200

A suspense account was opened to record the difference in the totals of the trial balance. Wise Ltd did not maintain any control accounts and the amounts of trade receivables and payables given in the trial balance represented the totals of the representative personal account balances.

(i) Trade receivables included the debit balance of $8800 of Nice Ltd, which also carried a credit balance of $4800 as a trade payable. To offset these balances, a contra (抵銷) of $4800 had been credited to its account as trade payable but debited to its trade receivable account to the amount of $480 only.

(ii) The total of $6400 under the discount column on the credit side of the 3-column cash book had been posted to the personal accounts only.

(iii) A calculation error was found in the sales day book resulting in sales being undercast by $84 000.

(iv) Sales to Sky Ltd with a list price of $100 000 were recorded but the trade discount of $1000 had been overlooked.

(v) Allowance for doubtful debts at 31 December 2007 should have been $13 700.

(vi) On 1 October 2007, office equipment costing $36 000 was sold for cash $18 000. The equipment had a net book value of $5000 at 1 January 2007. The cash account was debited, and the sales accounts credited, with the amount of $18 000. No other accounting entries were made in respect of the disposal.

A second-hand motor vehicle was purchased on 1 January 2007 for $240 000. On the same day, Wise Ltd paid an additional $80 000 to replace the engine of the vehicle with a more powerful one. The amount of $80 000 had been written off as a repair expense.

Noncurrent assets are to be depreciated at 20% per annum on cost.

REQUIRED:

(a) Prepare the journal entries necessary for correcting the errors and omissions in (i) to (vi) above. (10.5 marks)

(b) Draw up a statement to show the calculation of the revised profit for the year ended 31 December 2007. (5 marks)

(c) Evaluate the use of a trial balance in identifying errors. (3 marks)

3. 2010.P1.Q5(a),(c) modified [item (ii), (vi), (ix) excluded]

Words in italics can be neglected. Those words are kept for completeness only.

Purple commenced her retail business in 2006. The firm adopts the periodic inventory system and maintains a uniform mark up of 25% on all goods sold. The firm uses the **Trade Receivable** account to record all the receivables arising from credit sales transactions.

Before the preparation of the financial statements for the year ended 31 December 2009, the following balances as at 31 December 2009 were extracted:

		$
Sales ledger:	*Total of debit balances*	*278 300*
	Total of credit balances	*4 500*

The sales ledger control account is kept as part of the double entry system while the sales ledger is kept on a memorandum basis only. As at 31 December 2009, the balances in the sales ledger control account did not agree with the totals of the balances extracted from the list of sales ledger.

Subsequent investigation revealed the following:

(i) Goods returned from a customer amounting to $12 000 were taken for Purple's personal use. No entries had been made in the books.

(iii) On 21 December 2009, goods costing $42 000 were sent to a customer on a sale-or-return basis. On the same day, the accountant recorded it as a normal sale in the sales day book. On 31 December 2009, the customer confirmed that he would accept one-third of the goods and return the rest to the firm in early January 2010. The goods were not included in the closing inventory and no other entries had been made in the books.

(iv) Returns inwards book was overcast by $6000.

(v) On 31 December 2009, a junior bookkeeper recorded a credit sale of $9000 to a customer. The goods were not dispatched (寄出) to the customer until early February 2010 and were included in the closing inventory.

(vii) A debt of $5000 owed by a customer was written off as bad debt in early 2009. On 30 October 2009, the customer settled the debt with cash of $1500 and a machine with a fair value of $3200. No entries had been made in the books. No depreciation is needed to be taken for the machine.

(viii) The former cashier had stolen cash of $10 000 which represented settlement by a customer against a long outstanding debt with a discount allowed of $1000. No entries had been made in the books.

REQUIRED:

(a) Show the journal entries necessary for correcting the errors and omissions before the preparation of the financial statements for the year ended 31 December 2009. (Narrations are not required.) (8.5 marks)

(c) Briefly describe what a "credit note" is, and when the document is used by a company. (2 marks)

4. 2006.P1.Q5 (modified) [Item (ii), (iii) and (vi) only]

JoJo Company engaged in the trading business. The company provides depreciation on its fixed assets at 25% per annum using the reducing balance method. A full year's depreciation is provided in the year of acquisition and none in the year of disposal.

At 31 December 2005, the trial balance of the company did not balance and the accountant recorded the difference in a suspense account. In January 2006, the accountant disappeared. After checking the accounting records, the following information relating to the year ended 31 December 2005 was revealed:

(ii) Rent revenue of $3000 received in 2004 for January 2005 was brought down at the beginning of 2005 as $300 on the debit side of the rental expenses account.

(iii) An item of office equipment costing $22 000 was purchased during the year. JoJo Company paid $20 700 cash and gave an item of office equipment with a book value of $1480 (original cost was $19240) to settle the balance owed. The accountant only debited the office equipment account and credited the bank account with the amount of $20 700. At 31 December 2005, no depreciation had been provided for both items of office equipment.

(vi) JoJo Company entered into a 3-year tenancy contract from 1 November 2005 to 31 October 2008. The monthly rental was agreed at $72 000 but a two-month rent-free period for November and December 2005 was allowed. A non-refundable premium of $90 000 was paid on 1 October 2005 and it had been recorded in the rental premium account. The company did not recognize any rental expenses for 2005.

REQURIED:

(a) Prepare journal entries necessary to correct the above. (7 marks)

(b) Explain with reasons your accounting treatment for items (vi) above. (2 marks)

5. 2009.P1.Q4(d) (item (iv) only)

The profit and loss account of Tai Wo Ltd for the year ended 31 December 2008 showed a net profit of $1 250 000. The following items attracted the attention of the directors:

(iv) Tai Wo Ltd entered into a 3-year tenancy agreement to rent office premises. The lease period commenced on 1 January 2008. The following payments amounting to $240 000 were recorded as rental expenses for 2008:

(1) A non-refundable premium of $60 000 paid on 1 January 2008 for the use of the existing facilities.

(2) A rental deposit of $30 000 paid on 1 January 2008.

(3) Total rental of $150 000 paid in 2008. The monthly rental was $15 000. A two-month rent-free period was allowed and rental payments commenced on 1 March 2008.

REQUIRED:

Prepare the necessary journal entries for the correction of items (iv) above.

(3 marks)

HKCEE Correction of errors Past Papers – amendments

➢ General reference:

Current terms	Previous terms (in past papers)
Allowance for doubtful debts	Doubtful debts provision Provision for doubtful debts
Trade receivables / accounts receivables	(Trade) Debtors
Trade payables / accounts payables	Creditors

Please mark the following on the questions before you start working on the questions.

1993Q8 (iii)

Original: Provision for doubtful debts of 8% on debtors was to be created. In addition, 2% discounts allowed was to be provided for.

Please change to: Provision for doubtful debts of 10% on debtors was to be created.

1995Q10(iii)

Original: … The existing provision for doubtful debts, $1,300 should have been adjusted to 2% of debtors. In addition, a provision of 2% for discount allowed should have bene raised.

Please change to:

The existing provision for doubtful debts, $1,300 should have been adjusted to 4% of debtors. <Delete the sentence for provision for discounts allowed>

1996Q10(vii)

Original: In March 1996, Mabel Company Limited had issued 100,000 $1 ordinary shares at a premium of $0.50 per share. …

Please change to:

In March 1996, Mabel Company Limited had issued 100,000 ~~$1~~ ordinary shares at ~~a premium of~~ **$1.50** per share. …

2000Q10

Original: The trial balance … a suspense account was credited with a difference of $4,260.

Please change to: The trial balance … a suspense account was **debited** with a difference of $4,260.

<u>Item (ii)</u> – Please delete the word 'petty'

Original: A petty cash balance of $400 had been omitted from the trial balance.

Please change to: A ~~petty~~ cash balance of $400 had been omitted from the trial balance.

Original: A petty cash balance of $400 had been omitted from the trial balance.

Please change to: A ~~petty~~ cash balance of $400 had been omitted from the trial balance.

<u>1997Q7(vii)</u>

1. Delete part (b) of the question.
2. Amend item (vii)

Original: (vii) Consumable goods costing $1,200 were taken from the showroom for office use, but it was recorded as credit sales of $1,500 to B. Lee.

Please change to:

Adrian Limited sells stationery. Some stationery costing $1,200 were taken from the showroom for office use, but it was recorded as credit sales of $1,500 to B. Lee.

<u>2007Q7(vii)</u>

Original: In March 2007, 40,000 ordinary shares of the par value of $1 each were issued to the public at $1.40 each, payable in full on application. ...

Please change to: In March 2007, 40,000 ordinary shares ~~of the par value of $1 each~~ were issued to the public at $1.40 each...

2008Q7

1. Delete part (b) & part (c).
2. Delete item (vi)
3. Amend the first paragraph of the question
4. Amend item (v)

Introduction paragraph, **original**:

Please delete: "Wells Company maintains control accounts for memorandum purpose only. The balance of the debtors' control account as at 31 December 2007 did not agree with the net balances total of $67 520 extracted from the sales ledger. In addition"

Please modify the introduction paragraph as follows:

The trial balance of Wells Company failed to agree on 31 December 2007 and the difference was posted to a suspense account. The draft net profit for the year ended 31 December 2007 amounted to $254 988.

Item (v): Delete the word "petty"

Original: A petty cash payment of $36 for sundry expenses had been omitted from the books.

Please change to: A ~~petty~~ cash payment of $36 for sundry expenses had been omitted from the books.

1991 Q.3
The draft trading and profit and loss account of Exbrain Computer Co. for the year ended 30 June 1990 showed a net profit of $160,000. The following facts were subsequently discovered:

(i) Goods in the company's warehouse costing $80,000 were stolen in October 1989 and the amount was written off immediately. A letter was received from the insurance company on the last day of June 1990 acknowledging that $72,000 would be paid for the loss but no entries were made.

(ii) A computer costing $30,000 was taken from the stock on 1 March 1990 to be used by the sales manager on company business. No entries in the books were made about this, and this computer was not included in the stock valuation at 30 June 1990. The company provides for depreciation on equipment at a rate of 25% per annum on a straight-line basis.

(iii) The company sponsored a graduation ball organised by the student union of a university by donating 3 line printers as prizes for the lucky draw. The selling price of each line printer was $3,450 at 15% markup. The amount of $10,350 was debited to advertising and credited to sales.

Required:

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

(b) Prepare a statement showing the revised net profit. (5 marks)

1992S Q.5
(a) Why is a suspense account used? (3 marks)

(b) Technic Company prepared the following balance sheet as at 31 March 1992:

	$		$	$
Plant and machinery (net)	30,000	Capital as on 1 April 1991		18,000
		Add: profit for the year		7,000
			$	25,000
Stock	8,000			
Debtors	15,000	Loan	20,000	
Bank	1,000	Creditors	9,000	29,000
	54,000			54,000

Upon examination of the books, you ascertain that:

(i) Additional depreciation on plant and machinery of $500 should be provided.

(ii) A doubtful debts provision of 1% on debtors outstanding should be provided.

(iii) Sales included goods sold for $500, which was 25% above cost. These goods awaited collection by customers but had been included in stock.

(iv) Loan interest was outstanding for six months at 6% per annum.

(v) Bank charges of $50 had not been recorded.

Required:

Prepare a statement showing the adjustments to the profit for the year. (7 marks)

1997 Q.3

The draft accounts of a sole trader for the year ended 30 April 1997 showed a net profit of $78,500.

Subsequent investigation revealed the following errors and omissions:

(i) The trader had paid himself a salary of $25,000 over the period and had charged this sum to wages and salaries.

(ii) The book-keeper had been instructed to write off $3,500 from a customer's account as a bad debt, and to reduce the provision for doubtful debts by $4,200. By mistake, however, he had written off $4,200 from the customer's account and increased the provision for doubtful debts by $3,500.

(iii) The plant and equipment has been depreciated at an annual amount of $32,500. However, a more realistic figure of $48,750 should have been used starting from 1 May 1996.

(iv) Part of the business premises are let out, but rent to the sum of $24,000 has not been received. No entries in respect of this have been made in the books.

(v) An amount of $300 received from a debtor and paid into the bank on 30 April 1997 has been completely omitted from the books.

Required:

(a) Prepare journal entries to correct the above. (Narrations are not required.) (7 marks)

(b) Prepare a statement of adjusted profits for the year ended 30 April 1997. (3 marks)

1992 Q.9 (Amended)

The incorrect balance sheet of SLT Computer Co. as shown below was prepared by an inexperienced book-keeper:

Balance Sheet as at 31 March 1992

Fixed Assets	$	$	**Capital**	$
Stock		39,950	Balance at 1.4.1991	53,210
Office equipment	95,000		Less: Drawings	20,000
Less: Accumulated				33,210
depreciation	11,400	83,600	Add: Net profit	31,200
				64,410
Prepaid rent		5,000		
Motor vehicle	153,300			
Less: Accumulated				
depreciation	54,268	99,032	**Liabilities**	
			Interest accrued	11,000
Current assets			Creditors	93,306
Debtors		22,400	Loan	100,000
Bank		22,300	Suspense	3,566
		272,282		272,282

The following errors were subsequently found:

(i) A sale of $7,667 was correctly entered in the sales account but was credited to the debtors account as $6,767.

(ii) The only journal entry for the disposal of a motor vehicle on 1 April 1991 with a cost of $50,000 and an accumulated depreciation of $10,000 was as follows:

Bank	$35,000	
Sales		$35,000

(iii) The returns inwards account was overcast by $1,500 and the closing stock was undervalued by $23,500.

(iv) $16,500 for a new computer bought for resale was debited to the office equipment account but was not recorded in the cash book. (Ignore the depreciation charge) However, the value of the computer had been included in the closing stock.

Required:

Prepare the following:

(a) journal entries to correct the above errors (narrations are not required); (8 marks)

(b) a statement for the revised net profit; and (2.5 marks)

(c) a revised balance sheet. (9.5 marks)

1993 Q.8

The balance sheet of Wing Kee Co. as at 31 March 1993 is set out below:

FIXED ASSETS	$	$		$	$
Plant & machinery	80,000		Capital		90,000
less: accumulated			Add: net profit		29,000
depreciation	20,000	60,000			119,000
Fixtures & fittings	75,000		Less: drawings		7,460
less: accumulated					111,540
depreciation	35,000	40,000			
		100,000	CURRENT LIABILITIES		
CURRENT ASSETS			Creditors	3,340	
Stock	8,200		Accrual	120	
Debtors	4,150				3,460
Bank	2,650	15,000			
		115,000			115,000

On checking the accounts of the company, the following information was revealed:

(i) It is the policy of the company to depreciate fixed assets by the reducing balance method. Unfortunately, the accounts clerk had wrongly computed the depreciation for the year (plant & machinery $8,000 and fixtures & fittings $15,000) by the straight-line method although the same rate had been applied. There was no addition or disposal of fixed assets during the year.

(ii) During the physical stock-taking on 31 March 1993, 250 units were wrongly entered at a unit cost of $1.20, instead of $10.20.

(iii) Provision for doubtful debts of 8% on debtors was to be created. In addition, 2% discounts allowed was to be provided for.

(iv) The accrual $120 should have been a prepayment.

(v) The company failed in court case and $7,500 had to be paid to a customer for damages. This amount had not been paid at 31 March 1993.

Required:

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

(b) Calculate the net profit after adjustments have been made. (5 marks)

(c) Prepare a statement to ascertain the amount of working capital as at 31 March 1993. (4 marks)

(Calculation to the nearest dollar.)

1995 Q.10
The draft accounts of Rose Limited for the year ended 30 April 1995 showed a net profit of $47,627.

At the draft stage, there was a net difference of $190 in the trial balance. A suspense account was opened to record this. During subsequent investigations, the following errors were discovered:

(i) The company has acquired additional office space from 1 November 1994 at an annual rental of $30,000, payable quarterly in advance. The first two payments were made on 1 November 1994 and 1 February 1995 respectively, but in preparing the draft accounts for the year ended 30 April 1995 the bookkeeper mistakenly thought that these payments were made in arrear and had raised an accruals account.

(ii) The company has sub-let part of the office referred to (i) above at a quarterly rental of $4,000, payable in advance from 1 February 1995. The tenant paid the rental for the first three months on 1 February 1995. The bookkeeper had debited it to the bank account and credited it to the premises account.

(iii) Trade debtors were shown as $55,210. However, a bad debt of $610 had not been written off. The existing provision for doubtful debts, $1,300 should have been adjusted to 2% of debtors. In addition, a provision of 2% for discounts allowed should have been raised.

(iv) A piece of equipment costing $12,000 and acquired on 1 May 1994 for use in the business had been debited to purchases account. It was the company's policy to depreciate equipment at 10% per annum on cost.

(v) Items valued at $1,175 had been completely omitted from the closing stock figure.

(vi) The debit side of the wages account had been over-added by $100.

(vii) Credit purchases of $2,980 had been correctly debited to the purchases account but had been credited to the supplier's account as $2,890.

Required:

(a) Show the journal entries necessary to correct the above errors. (No narrations are required) (13 marks)

(b) Prepare a statement correcting the draft net profit for the year ended 30 April 1995. (5 marks)

(c) Draw up the suspense account. (2 marks)
(Calculations to the nearest dollar)

1996 Q.10 (Amended)
The draft accounts of Mabel Company Limited for the year ended 30 April 1996 failed to balance and there was a net debit difference of $2,335 in the suspense account. The net profit for the year before adjustments amounted to $129,380.

During subsequent audit, the following details were discovered:

(i) The debit balance of $1,500 on Sharp Limited's account had been brought forward as $150.

(ii) A new piece of furniture costing $3,100 had been debited to the purchases account.

(iii) Depreciation of office equipment had been entered in the profit and loss account as $1,683 instead of $1,368.

(iv) A bad debt of $1,300 had been written off from the account of Modern Limited, but the double entry had not been completed.

(v) In April 1996, Mabel Company Limited had bought goods on credit from Elegant Limited for $4,521 and had sold goods on credit to the same company for $1,630. These transactions had been correctly recorded in the accounts. The two accounts of Elegant Limited were to be settled in contra at 30 April 1996.

(vi) No entries had been made in the books in respect of a credit purchase from Allen Limited on 29 April 1996. The invoice price was $650 and a trade discount of $40 had been given by the supplier.

(vii) In March 1996, Mabel Company Limited had issued 100,000 $1 ordinary shares at a premium of $0.50 per share. The proceeds had correctly been debited to the bank account, but the sales account and the general reserve account had been credited with the par value and premium respectively.

(viii) Some goods, costing $840, had been damaged by fire. They had no scrap value and were written off. A claim of $800 had been agreed with the insurance company.

(ix) Mr. Lee, whose debts had been written off, paid $731 to clear his account in April 1996. No entry has yet been made.

(x) The returns inwards account had been credited with $90 for some goods returned to a supplier.

Required:

(a) Show the journal entries necessary to record the above (no narrations are required). (13 marks)

(b) Draw up the suspense account. (3 marks)

(c) Calculate the revised net profit for the year ended 30 April 1996. (4 marks)

1998 Q.10
The trial balance of Debbie Limited at 31 March 1998 did not agree. A suspense account was opened to record the net credit difference of $3,996. The draft net profit for the year amounted to $14,290.

Subsequent checking of the records revealed the following errors:

(i) Bank charges of $270 appeared in the cash book but had not been posted to the general ledger.

(ii) Cheques totalling $3,450 were sent to creditors on 31 March 1998 but had not been recorded in the books.

(iii) A credit note from Smith Limited for $880 had been entered correctly in the returns outwards journal but had been posted to Smith Limited's account as $1,080.

(iv) The sales proceeds of a fully depreciated motor vehicle had been credited to the sales account as $8,600. The cost of the motor vehicle was $12,000.

(v) A stock loss of $20,000 had been shown in the draft profit and loss account as 'Loss due to burglary'. Although the insurance company agreed that $14,000 would be paid in settlement, no record in respect of this had been made by the company as at 31 March 1998.

(vi) Office equipment costing $7,500, with a list price of $9,000, was taken from the showroom for the use of the company, but no entries in respect of this had been made. It was included in the trading stock at cost at 31 March 1998. The company provides for depreciation at the rate of 25% on the cost of office equipment held at the end of each financial year.

(vii) Discounts received of $210 had been credited to purchases as $120.

(viii) Credit sales of $1,997 had been correctly recorded in the customer's account, but had been debited to the selling expenses account as $1,979.

You are required to prepare in the books of Debbie Limited:

(a) the journal entries necessary to correct the above errors (No narrations are required); (11 marks)

(b) the suspense account; and (4 marks)

(c) a statement correcting the draft net profit for the year ended 31 March 1998. (5 marks)

2001 Q.10
On 31 March 2001, the trial balance of George Lee, a wholesaler, failed to agree and the difference was entered in a suspense account. After the draft final account had been prepared, the following matters were discovered. The draft profit for the year amounted to $156,403.

(i) The credit side of the salaries account had been undercast by $1,000.

(ii) Credit sales of $3,812 had been correctly credited to the sale account but had been debited to the customer's account as $3,182.

(iii) The bookkeeper had been instructed to reduce the provision for doubtful debts by $1,300. However, an increase of $1,100 in provision for doubtful debts had been made.

(iv) Due to an oversight, a cash discount had been allowed to a credit customer on an invoiced amount of $8,000 at the rate of 10%. A discount of 7% should have been recorded.

(v) Rent of $6,000 which had been prepaid at 31 March 2000 had not been brought down in the rent account as an opening balance.

(vi) Prepaid insurance of $1,829 had been wrongly accounted for as an accrual.

(vii) A cash payment of repairs on a motor vehicle for $9,500 had been recorded as $5,900 in the motor vehicles account and the cash account. Wages of $40,000 paid for the construction of a store room was debited to the wages account. It is the policy of the company to provide depreciation on the cost of all fixed assets at 10% per annum.

Required:

(a) Prepare journal entries to correct the above. (Narrations are not required.) (11 marks)

(b) Prepare a statement to correct the draft net profit for the year ended 31 March 2001. (9 marks)

2000 Q.10 (Amended)
The trial balance of Classics Company at 31 March 2000 did not agree and a suspense account was credited with a difference of $4,260. The draft net profit for the year amounted to $39,426. ^debited

Subsequent checking of the records revealed the following:

(i) A payment of $2,600 to Tony Company had been posted to the personal account as $260.

(ii) A petty cash balance of $400 had been omitted from the trial balance.

(iii) Wages amounting to $1,200 for the installation of office equipment had been recorded in the wages account.

(iv) Cash sales of $2,000 had been correctly entered in the cash book, but the sales account was credited with $2,020.

(v) A provision for doubtful debts of $2,900, which amounted to 2% of the debtors at year end, was made. However, a provision of 2.5% should have been provided.

(vi) Goods with a list price of $5,000 were purchased and a 10% trade discount was given by Overseas Ltd. The company was also granted a cash discount of 7% for early settlement of the debt. The amount of $5,000 was recorded both at the time of purchase and at the time of payment to Overseas Ltd.

(vii) Goods with a selling price of $1,500 were taken by the owner. It had only been credited in the sales account. The mark-up price was 25% above cost.

Required:

(a) Prepare journal entries to correct the above. (Narrations are not required.) (12 marks)

(b) Draw up the suspense account. (4 marks)

(c) Prepare a statement to correct the draft net profit for the year ended 31 March 2000. (4 marks)

1994 Q.10 Correction of errors/Control

The draft balance sheet of the Oriental Office Equipment Company as at 31 March 1994 was as follows:

	$	$		$	$
Fixed assets at cost		85,000	Capital		53,000
less: Accumulated			Add: net profit		4,025
depreciation		37,500			57,025
		47,500	less: drawings		1,110
Current assets					55,915
Stock	6,280		Current liabilities		
Debtors	3,150		Creditors	2,630	
Petty cash	70	9,500	Bank overdraft	1,935	
Suspense		3,480			4,565
		60,480			60,480

Upon an investigation of the accounts, the following were revealed:

(i) The debtors' control account showed a balance of $6,550.

(ii) A debtor's balance of $810 was omitted from the list extracted on 31 March 1994 which gave the total of $3,150.

(iii) The sales day book was undercast by $290.

(iv) A credit sale of $1,260 to Mr. Cheng had been credited as $1,620 in his account.

(v) Goods $430 returned by Mr. Ko were wrongly recorded in the purchases day book and posted to Mr. Kok's account in the purchase ledger.

(vi) The petty cash book showed a payment to a creditor of $80 but the corresponding entry had not been made in the personal ledger.

(vii) During the physical stock-taking at year-end, one of the stock sheets was overcast by $720.

(viii) The owner had taken $350 worth of goods for personal use but the amount had been recorded as a credit sale.

(ix) A typewriter costing $2,500 was taken from the warehouse for administrative use, but no entries were made in the books. However, during the year-end stock-taking, this had been treated as trading goods and was included in the company's closing stock figure. It is the policy of the company to depreciate a full year's charge at 20% p.a. on the cost of fixed assets.

Required:

(a) Draw up the debtors' control account to correct the balance and prepare a statement to reconcile this corrected balance with the total of the sales ledger. (7 marks)

(b) Draw up the suspense account. (4 marks)

(c) Reconstruct the balance sheet of the Oriental Office Equipment Company after making the corrections. (9 marks)

1999 Q.7 Journal/Control/Suspense

The trial balance of Adrian Limited as at 31 March 1999 failed to agree and the total balances extracted from the sales ledger amounting to $28,634 was not in agreement with the balance of $26,743 in the debtors control account.

Subsequent checking of the records revealed the following:

(i) A receipt of $4,000 from K. Yu, a debtor, had been treated as cash sales.

(ii) Credit sales of $2,000 to A. Fu had been recorded only in the personal account in the sales ledger.

(iii) A debit balance of $935 in the bank account had been included in the trial balance as an overdraft.

(iv) A prepayment of rates of $1,000 was wrongly adjusted at year end as an accrual.

(v) The debtors' accounts of C. Au $375 and K. Choi $637 were considered doubtful and the provision for bad debts was to be adjusted accordingly.

(vi) The returns inwards book was undercast by $109.

(vii) Consumable goods costing $1,200 were taken from the showroom for office use, but it was recorded as credit sales of $1,500 to B. Lee.

(viii) The discounts allowed account was overcast by $84.

Required:

(a) Prepare journal entries to correct the above. (Narrations are not required.) (11 marks)

(b) Draw up the debtors' control account to correct the balance and prepare a statement to reconcile this corrected balance with the total balances of the sales ledger. (6 marks)

(c) Draw up the suspense account. (3 marks)

2002 Q.5

(A) List six types of errors that do not affect the agreement of the debit and credit totals of a trial balance. (3 marks)

(B) The trial balance of May Limited at 31 March 2002 did not agree and a suspense account was debited with the difference. The draft net profit for the year amounted to $67,246.

Subsequent checking of the records revealed the following:

(i) A credit purchase of furniture for $5,000 had been recorded in the purchases day book. The company provides for depreciation at the rate of 25% on the cost of furniture held at the end of each financial year.

(ii) The closing stock at 31 March 2002 was over–valued by $1,347.

(iii) Free samples received from the suppliers had been wrongly recorded as credit purchases of $1,000.

(iv) A partial loan repayment of $6,000 had been recorded correctly in the cash book. However, it was recorded as $600 in the loan interest account.

(v) The sales day book was overcast by $1,870.

(vi) Discounts allowed of $460 had been debited to sales as $640.

(vii) An increase in the provision for doubtful debts of $900 had been treated as a bad debt on 31 March 2002.

(viii) A payment for telephone expenses of $540 had been recorded twice in the insurance account.

Required:

(a) Prepare the necessary journal entries to correct the above. (Narrations are not required.) (12 marks)

(b) Draw up the suspense account. (5 marks)

(c) Prepare a statement to correct the draft net profit for the year ended 31 March 2002. (9 marks)

2003 Q.5
The trial balance of Wang Limited as at 31 March 2003 failed to agree and the difference was debited to a suspense account. The draft net profit for the year amounted to $183,496.

Subsequent checking of the records revealed the following:

(i) A provision for doubtful debts of $5,200, which amounted to 4% of debtors at year end, was made. However, a provision of 3% should have been provided.

(ii) On 1 April 2002, a cash sale of furniture for $9,150 had been recorded as a cash sale of goods. No other entries in respect of this transaction had been made. The company had provided for depreciation at the rate of 20% on the cost of this furniture at 31 March 2003. The furniture cost $24,000 and had a provision for depreciation of $14,400 at 31 March 2002.

(iii) Credit sales to T Chan for $20,000 had been correctly recorded in the sales account but had not been recorded in the personal account.

(iv) A payment of interim dividend of $36,000 was wrongly recorded as a payment of administrative expenses.

(iv) Prepaid insurance of $692 at 31 March 2002 had not been brought down as an opening balance in the insurance account. Prepaid rates of $518 at 31 march 2003 had been omitted from the trial balance.

(vi) Carriage outwards of $1,205 had been recorded as carriage inwards.

(vii) The purchases journal had been overcast by $840.

(viii) A creditor for $3,020 had been paid twice, Both payments had been posted to the ledger. However, the refund of the over–payment was recorded as a cash sale.

(ix) Returns outwards of $300 to Y Lee had been recorded only in the personal account.

(x) Cash discounts allowed of $450 had been correctly credited to debtors but debited to sales as $540. A trade discount received of $494 was recorded only on the credit side of the discounts received account as $449.

You are required to:

(a) Prepare the necessary journal entries to correct the above (Narrations are not required.) (17 marks)

(b) Draw up the suspense account. (5 marks)

(c) Prepare a statement to correct the draft net profit for the year ended 31 March 2003. (7 marks)

2000 Q.2
"Although the totals of debit and credit balances agree in a trial balance, it does not mean that the books are correct as there are various situations that give rise to errors."

Elaborate on the above statement with examples. (10 marks)

2004 Q.4
Subsequent checking of the records revealed the following:

(i) The operating expenses account had been overcast by $600.

(ii) $3,000 paid by cheque for the purchase of office equipment had been recorded only in the bank account. It is the company's policy to provide no depreciation in the year of acquisition.

(iii) Bad debts written off amounting to $1,232 had been credited to the commission revenue account only.

(iv) Credit purchases of $1,000 had been recorded as a credit sale of $1,100.

(v) Drawings of goods amounting to $4,235 had been debited to operating expenses as $4,325 and credited to sales as $4,235.

You are required to:
Prepare the journal entries to correct the above. (Narrations are not required.) (9 marks)

2006 Q.5 Bank Reconciliation/Journal/Suspense

The trial balance of Limited as at 31 March 2006 failed to agree and the difference was entered in a suspense account. The draft net profit for the year amounted to $80,260.

Additional information:

(i) The last month's bank statement balance at 28 February 2006 showed a credit balance of $19,900, which was the same as that in the cash on that date. This balance had been wrongly included as the bank balance in the trial balance as at 31 March 2006.

Deposits and cheque payments, totalling $315,000 and $300,700 respectively, had been recorded in the cash book during March 2006.

(ii) The following items were shown on the March bank statement but not in the cash book:
  (1) Bank charges of $80;
  (2) Bank deposit interest of $650;
  (3) A dishonoured cheque of $10,250 from Stay Ray Limited; and
  (4) A direct deposit of $2,400 lodged by Kettler Limited.

(iii) Cheques, issued in March, amounting to $16,500 had not been presented to the bank for payment.

(iv) Lodgements, totalling $6,630 for March, were not recorded by the bank until 2 April.

You are required to:

(a) Show the necessary adjustments to be made in the cash book on 31 March 2006. (6 marks)

(b) Prepare a bank reconciliation statement as at 31 March 2006. (3 marks)

Subsequent checking of the records revealed the following:

(v) The salaries account had been undercast by $500.

(vi) A credit purchase of $2,000 had been completely omitted.

(vii) Returns from Jane Limited, amounting to $780, had been recorded in the accounts as $870.

(viii) An electricity bill of $1240 for March 2006 had been paid twice. Both payments had been posted to the ledger. The excess amount paid was to be used to settle future bills.

(ix) A trade discount of 10% was granted to a customer, Mr. Wu, on a bulk purchase of $10 000. The sale had been properly recorded in the books. A cash discount of 5% was also allowed to him on his settlement of account in March. However, only the amount received was debited in the cash book and no other entries were made.

(x) $200,000 6% debentures were issued at par on 1 March 2006 to settle a bank loan. Interest on debenture was to be paid every 6 months. No entries relating to these had been made.

You are required to:

(c) Prepare the necessary journal entries to correct items (v) to (x) above. (Narrations are not required) (15 marks)

(d) Prepare a statement to correct the draft net profit for the year ended 31 March 2006. (5 marks)

2007 Q.7

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

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

You are required to:

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

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

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

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

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

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

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

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

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

You are required to:

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

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

2008-Q7

Wells Company maintains control accounts for memorandum purpose only. The balance of the debtors' control account as at 31 December 2007 did not agree with the net balances total of $67 520 extracted from the sales ledger. In addition, the totals of the trial balance as at that date failed to agree and the difference was posted to a suspense account. The draft net profit for the year ended 31 December 2007 amounted to $254 988.

Subsequent checking of the records revealed the following:

(i) Sales for the year included an amount of $20 000 which had been received in cash in December 2007. These goods were scheduled to be delivered to the customer in February 2008.

(ii) Cash of $3000 received from a debtor, J Morgan, in December 2007 was recorded as a cash sale.

(iii) The only credit balance $880 in the sales ledger arose from a casting error. The account should have a debit balance of $370.

(iv) Goods with a list price of $700 were returned by a customer, MC Lee, on 31 December 2007. A trade discount of 10% had been given to him upon the sale of the goods. No entry had been made in the books in respect of the return.

(v) A petty cash payment of $36 for sundry expenses had been omitted from the books.

(vi) A contra entry of $728 had been recorded correctly in the sales and purchases ledgers, but not the control accounts.

(vii) A payment of $335 for carriage outwards had been posted twice to the carriage inwards account.

(viii) The sales day book was undercast by $1000.

(ix) A quarterly rental expense of $24 000, payable in advance for December 2007 to February 2008, was paid on 15 November 2007. The payment had been correctly recorded in the bank account but had been credited to the rental income account as $42 000.

(x) A payment to a creditor, Gregg Chan, of $795 was recorded as a cash purchase of stationery.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. If no journal entry is required, you should state so. (11 marks)

(b) Prepare a statement to update the balances total of the sales ledger as at 31 December 2007. (4 marks)

(c) Draw up the debtors' control account. (5 marks)

(d) Prepare a statement to correct the draft net profit for the year ended 31 December 2007. (9 marks)

Correction of Errors

2009-Q2B

The trial balance of Tony Limited as at 31 December 2008 failed to agree and the difference was debited to a suspense account. The draft net profit for the year amounted to $164 555.

Subsequent checking of the records revealed the following:

(i) An accrual for salaries of $1000 was mistakenly recorded as a prepayment.

(ii) Prepaid rates of $860 at 31 December 2007 had been brought forward as an opening credit balance in the rates account.

(iii) An item of office equipment which was fully depreciated at 31 December 2007 was sold on 1 January 2008 as scrap for $ 130 on credit. The cost of the office equipment was $8000. No entries in respect of the disposal had been made. The company had provided depreciation for 2008 at the rate of 10% on the cost of this office equipment.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. (Note: Narrations are not required.) (7 marks)

(b) Prepare a statement to correct the draft net profit for the year ended 31 December 2008. (4 marks)

2010-Q7

The trial balance of Tess Company as at 31 December 2009 failed to agree and the difference was posted to a suspense account. The draft net profit for the year ended 31 December 2009 amounted to $193 450. All normal sales of the company are made at a gross profit of 40% on cost.

Subsequent checking of the records revealed the following:

(i) The purchases journal had been undercast by $520.

(ii) Returns inwards of $560 had been credited to the returns outwards account as $650.

(iii) Withdrawal of goods with a selling price of $2800 by the owner had been incorrectly recorded as a credit sale to a customer, Russ Company.

(iv) A contra entry of $792 in the debtors and creditors accounts had been incorrectly recorded as $972.

(v) A cash discount of $700 received from a supplier was treated as a trade discount.

(vi) A payment for telephone expenses of $300 for the owner was recorded as a payment for the business telephone bill.

(vii) Goods with a cost of $1000 were sold to a customer at a special discount of 10%. This transaction had been recorded as a normal credit sale.

(viii) A credit sale of office equipment for $10 000 was incorrectly treated as a credit sale of a fully depreciated motor vehicle with a cost of $100 000. The office equipment had a cost and accumulated depreciation of $80 000 and $64 000 respectively on 31 December 2009.

(ix) A payment of $123 for carriage inwards had been posted twice to the sundry expenses account.

(x) Commission income of $334 had been debited to both the bank account and the commission expenses account.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (17 marks)

(b) Draw up the suspense account. (3 marks)

(c) Prepare a statement to correct the draft net profit for the year ended 31 December 2009. (9 marks)

1. SP.P2A.Q4(b) [Modified]

REQUIRED:

(b) Identify four types of accounting errors that may exist even the trial balance agrees. (4 marks)

2. SP.P2A.Q6

The draft statement of financial position of Healthy Food Company as at 31 December 20X6 is as follows:

ASSETS	$	$
Office machinery	148 000	
Less: Accumulated Depreciation	45 300	102 700
Motor vehicles	10 000	
Less: Accumulated Depreciation	2 500	7 500
Inventories		127 600
Account receivables, net		85 500
Suspense account		6 800
		330 100

CAPITAL AND LIABILITIES	$
Capital	114 622
Account payables	68 750
Rates paid in advance	2 750
Bank loan (repayable on 31 December 20Y2)	100 000
Draft net profit for the year	22 068
Bank overdraft	21 910
	330 100

Subsequent to the preparation of the draft statement of financial position, the following were discovered:

(i) On comparing the bank statement with the cash book for the month of December 20X6, the following differences were found:

(1) Dividend income of $8060 had been credited directly into the bank account but the amount was recorded in the cash book as bank interest charged on the overdraft balance.

(2) A cheque of $10 000 issued for paying the deposit of acquiring a motor van in February 20X7 was not yet presented to the bank for payment. The amount was recorded as the only motor vehicle of the company. Motor vehicles are depreciated at 25% per annum on cost.

(ii) Owing to an oversight, $1300 prepaid insurance at 31 December 20X5 had been omitted from the general ledger in 20X6. Moreover, rates of $2750 paid in advance at 31 December 20X6 had been listed as a credit balance in the trial balance.

(iii) At 31 December 20X6, a customer with an outstanding debt of $10 800 was declared bankrupt and the amount was to be written off. In addition, the allowance for doubtful debts was to be reduced by $540.

(iv) Included in the closing inventories were goods at $10 000 received from Royce Limited on a sale or return basis. No other entries had been made in the books in respect of these goods.

BAFS – Correction of Errors (Sample Paper – 2021)

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (8 marks)
(b) Prepare the statement of financial position as at 31 December 20X6 in proper format. (7 marks)
(Total: 15 marks)

3. PP.P2A.Q3(b)

Subsequent checking of the records by the accountant of Easy Company revealed that no entries had been made for the following items:

(i) Loan interest of $5050 incurred in 2011 remains unpaid as at 31 December 2011.

(ii) A motor vehicle costing $80 000 with an accumulated depreciation of $40 000 as at 31 December 2011 was sold for $48 000 in cash on the same date.

REQUIRED:

(b) Prepare the journal entries to record the above transactions for the year ended 31 December 2011. (Narrations are not required.) (3 marks)

4. 2012.P2A.Q9(a) [Modified]

Note: You may skip part this question if you have not *learned Financial Statements of Limited Companies*.

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

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

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

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

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

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

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

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

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

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

REQUIRED:

(a) Prepare for Dragon Ltd

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

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

5. 2013.P2A.Q1(a)

The two directors of Amy Ltd believed that the company had a very good reputation in the industry. Director Lee proposed to quantity that at an amount of $300 000 as goodwill. Director Chan agreed and the bookkeeper credited the amount to sundry revenue on 31 March 2013.

REQUIRED:

(a) State and explain the accounting principle or concept that has been violated and show the journal entries to correct the above. (Narration is not required.) (4 marks)

6. 2014.P2A.Q9(c)

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

(vii) In launching a new product, samples were sent free of charge to a customer in November 2013 but this had been wrongly recorded as a credit sale of $22 900 to the customer. The cost of these goods was $16 000.

(viii) Rental amounting to $20 400 for the year ended 31 March 2014 was paid on 1 April 2013 and the whole amount had been debited to the rental expenses account.

(ix) Starting from November 2013, Nice Company provides maintenance services to customers, who are required to pay a maintenance fee in advance. The following receipts were credited to the maintenance expenses account:

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

REQUIRED:

(c) Prepare the journal entries necessary for items (vii) to (ix). Narrations are not required. (5 marks)

7. 2015.P2A.Q6(a),(b)

The trial balance as at 31 December 2014 for Elsa Company failed to agree and s suspense account was opened to record the difference. The following errors were subsequently discovered:

(i) Credit sales for $500 had been overlooked by the bookkeeper and no record was made in the books.

(ii) Payment of $3000 for rates was debited to the rental deposit account.

(iii) An electricity bill for December 2014 amounting to $2500 was recorded as $250 in the books. The bill would be settled in January 2015.

(iv) A cheque for $1200 received from a customer, Windy Ltd, had been entered in the cash book only.

(v) Discount received of $540 had been credited to the purchases account as $450.

(vi) On 31 December 2014, Elsa, the sole owner of the company, took over one of the company's motor vans for her personal use. She thought that she was just using her own asset and therefore she did not make any accounting record for this. The motor van cost $80 000 and had a net book value of $50 000 on 31 December 2014.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (7 marks)

(b) Identify the type of accounting error made in each of items (i), (ii), (iii) above. (3 marks)

8. 2016.Q8

Note: You may skip part this question if you have not *learned Financial Statements of Limited Companies.*

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

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

Additional information:

(i) A short-term loan of $456 000 was obtained to purchase a delivery van costing the same amount on 1 December 2015. The loan and its interest, totalling $480 000 have to be repaid on 1 May 2016. This total amount was mistakenly debited to the delivery vans account and credited to the short-term loan account. It is the company's policy to depreciate all non-current assets evenly over four years on a monthly basis.

(ii) On 31 December 2015, it was discovered that some goods costing $32 250 had been damaged and could only be sold for $22 200 after having them repaired for $2600 in January 2016. No adjustment had been made in the closing inventory for the above.

(iii) A purchase order from a customer for goods at invoice price of $15 000, with a mark-up of 25%, was received on 30 December 2015. The goods would be delivered to the customer on 15 January 2016. These goods were not included in the closing inventory as the order had been recorded as credit sales on 30 December 2015.

(iv) Analysis of the trade receivables is shown as follows:

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

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

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (9 marks)

(b) Prepare for Gary Company Limited the statement of financial position as at 31 December 2015. (9 marks)

(c) Explain how the acid test ratio at 31 December 2015 is affected if Gary Company Limited decides to repay part of its long-term bank loan earlier, on 1 June 2016. (2 marks)

(Total: 20 marks)

9. 2017.Q5(a)(b)

Note: You may skip part (b) if you have not *learned Financial Statements of Limited Companies.*

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

Subsequent investigation revealed the following errors and omissions:

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

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

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

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

REQUIRED:

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

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

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

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

REQUIRED:

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

10. 2018.Q8(A)

Note: You may skip part (b) this question if you have not *learned Financial Statements of Limited Companies*.

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

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

Additional information:

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

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

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

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

(v) A motor vehicle, which was purchased for $150 000 in 2013, was damaged in a traffic accident and then sold for $50 000 in December 2017. No entries were made in the books regarding the disposal except that the amount received was recorded as a cash sale.

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

REQUIRED:

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

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

11. 2019.Q8

Note: You may skip items (vi) & (vii) of this question if you have not *learned Financial Statements of Limited Companies*.

The trial balance of Alison Limited as at the financial year end, 31 December 2018, did not agree and the difference was posted to a suspense account.

The following errors were subsequently discovered:

(i) Discounts allowed of $175 had been credited to the discounts received account as $715.

(ii) The purchases day book was overcast by $840.

(iii) Accrued salaries of $430 as at 31 December 2017 had not been brought forward as an opening balance in 2018.

(iv) On 30 June 2018, sales proceeds of $7 400 for a piece of office equipment had been recorded as a cash sale. No other entries in respect of this transaction had been made. The office equipment had a cost of $16 300 and an accumulated depreciation of $6 500 on the date of disposal.

(v) Credit purchases of $2 100 had been correctly recorded in the supplier's account, but the corresponding entry had been credited to the returns outwards account as $1 200.

(vi) In October 2018, the company issued ordinary shares of $200 000. Application monies of $280 000 were received and recorded in the share application account. The issuance of shares and the refund of the excess application monies had been properly made on 29 December 2018 but no entries were made in the books.

(vii) The company made a 6% loan of $35 000 to a director on 1 October 2018. However, the loan had been recorded as a payment to another supplier having the same name.

(viii) A credit sale of $1 180 had been debited to the sales account and credited to the trade receivables account.

(ix) A rental deposit of $17 000 had been paid but no entries were made in the books.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (13 marks)

(b) Prepare the suspense account to find out the different as per trial balance. (4 marks)

(c) Identify the type of accounting errors made in (vii), (viii) and (ix) above respectively. (3 marks)

(Total: 20 marks)

12. 2020.Q9(A)

(A) Anson Company drafted a trial balance as at 31 December 2019, prior to the preparation of closing entries. As the trial balance did not agree, a suspense account was opened. Subsequent investigation revealed the following:

(i) The company's bank statement showed a credit balance of $259 465 as at 31 December 2019, which did not agree with the balance shown in the bank account on that date. The following were subsequently discovered:

(1) The following cheques had been recorded in the books but had not yet been presented to the bank:

Cheque number	Payee	Date of cheque	$
418226	Benny Limited	12 June 2019	23 615
471218	P&P Limited	3 November 2019	71 620
473006	Nice Company	4 January 2020	9 600

It is the practice of the bank not to honour cheques outstanding for more than six months.

(2) The company had deposited cheques totalling $47 900 into the bank and recorded them in the books on 31 December 2019, but they were not recorded by the bank until 2 January 2020.

(3) A cheque for $63 300 received from a customer, whose account had been outstanding for three months, was dishonoured and returned by the bank. The bookkeeper recorded the dishonoured cheque as $6 330.

(4) Interest charges of $1 795, shown in the bank statement, had not been recorded in the books.

(ii) The sales day book was overcast by $3 480.

(iii) Returns outwards of $835 had been mistakenly debited to the returns inwards account as $385.

(iv) It is the company's policy to charge depreciation on equipment at a rate of 25% per annum using the straight-line method on a monthly basis. The bookkeeper had provided a full year's depreciation on equipment for 2019. A piece of equipment which was purchased for $120 000 on 1 July 2015 was still in use at the end of 2019.

(v) In December 2019, goods costing $45 000 were received from a supplier on a sale-or-return basis. On 31 December 2019, 60% of these goods were accepted and sold to customers at a gross profit margin of 25%. Both transactions were made on credit. No entries were made in the books to record the above.

(vi) On 31 December 2019, an allowance for doubtful accounts of 2% had been provided on the total amount of trade receivables as shown in the ageing schedule below:

Age of trade receivables	Amount of trade receivables	Estimated doubtful debts
	$	
less than 31 days	90 000	1%
31 - 60 days	29 800	3%
over 60 days	10 000	10%
	129 800	

The company eventually decided to provide the allowance for doubtful accounts based on the age of the trade receivables.

REQUIRED:

(a) Prepare a statement, commencing with the bank statement balance, to calculate the bank account balance as at 31 December 2019 before updating the above items. (6 marks)

(b) With reference to all the above items, prepare the necessary journal entries to correct items (ii) to (vi). Narrations are not required. (11 marks)

7. Kin Limited is a trading company. It is the company's policy to provide depreciation on office equipment using the straight-line method at an annual rate of 20% on a monthly basis.

Before preparing the closing entries, the bookkeeper drafted the trial balance as at 31 March 2022. The trial balance did not agree and the difference was transferred to a suspense account.

Subsequently, the bookkeeper discovered the following errors:

(i) Goods returned to a supplier for $15 000 were debited to trade payables account and returns inwards account only.

(ii) A debit balance of $3 800 in the prepaid management fee account as at 31 March 2022 was not included in the trial balance.

(iii) Credit sales with a gross amount of $90 000 was made in March 2022. An 8% trade discount was given to the customer. The following double entries were made to record this transaction:

	Debit	Credit
	$	$
Sales	82 800	
Discounts allowed	7 200	
Trade receivables		90 000

(iv) Office equipment was acquired for $423 000 on 1 November 2021. After providing depreciation, it was discovered that an installation cost of $39 000 paid on the day of acquisition had been charged as an office expense.

(v) On 31 March 2022, office equipment bought on 1 December 2020 at $45 000 was traded in for a new model. The list price of the new model was $300 000 and the vendor offered a 10% discount to Kin Limited. The trade-in value of the existing office equipment was $25 000, the remaining amount would be paid in April 2022. No entries were made for the above trade-in arrangement.

(vi) On 15 March 2022, the company issued ordinary shares of $600 000. The receipt of subscription monies of $750 000 was recorded in the bank account and the share issue account. Shares were allotted and refunds were made to unsuccessful applicants on 31 March 2022. However, no entries regarding the allotment of shares and the refund were made in the books.

(vii) On 1 May 2021, the company paid the final dividend of $180 000 which had been declared on 31 March 2021. No entries were made for this payment.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (15 marks)

(b) Identify the type of accounting error made in items (iv) and (vii) above respectively. (2 marks)

CE Questions

- For ALL CE answers, you may write "Profit and Loss" instead of "Trading"
- Ignore debtors control / creditors control / control accounts.

1. 1991.Q3

(a)

Journal entries		Dr.	Cr.	
		$	$	
(i)	Insurance Co,.	72 000		
	P&L: Loss recovered from insurance		72 000	1
(ii)	Equipment	30 000		
	Purchases or Trading Account		30 000	1
	P&L: Depreciation	2 500		
	Accumulated Depreciation OR Provision for depreciation		2 500	1
	(working: $30 000 x 25% x 4/12 = $2,500)			
(iii)	Sales (Trading account)	10 350		
	Purchases		9 000	
	Advertising		1 350	2

(b)

Statement for revised profit

		$	
Profit as per draft		160 000	0.5
Add:	Loss recovered from insurance	72 000	1
	Stock transferred to office equipment	30 000	1
Less:	Provision for depreciation	(2 500)	1.5
Revised profit		259 500	1.5

2. 1992S.Q5

(a)

- ✓ If trial balance totals disagree with each other, errors are made.
- ✓ It may not be possible to find these errors immediately.
- ✓ Thus, the amount of difference between the two sides of the trial balance is temporarily recorded in a suspense account.
- ✓ This can allow the preparation of the final account without awaiting the resolution of all the errors.
- ✓ The, the errors arising from the suspense account will be investigated and corrected as soon as possible.

(b)

Technic Company

Statement showing the Adjusted Net Profit for the year ended 31.3.92

	$	$
Profit for the year before adjustments		7,000
Less: (i) Additional depreciation	500	

(ii) Provision for doubtful debts (15,000 x 1%)	150	
(iii) Goods already sold but included in stock (500 x 100 / 125)	400	
(iv) Loan interest (20,000 x 6% x 1/2)	600	
(v) Bank charges	50	1,700
Adjusted net profit		5,300

3. 1997.Q3

(a)

	Journal	Dr.	Cr.	
		$	$	
(i)	Drawings	25 000		
	Wages and salaries/Profit and loss		25 000	1
(ii)	Debtor ($4200 – $3500)	700		
	Bad debts/Profit and loss		700	1
	Provision for doubtful debt	7 700		
	Profit and loss ($3500 + $4200)		7 700	2
(iii)	Profit and loss ($48 750 – 32 500)	16 250		
	Provision for depreciation – plant and equipment		16 250	1
(iv)	Rent receivable/Accrued income	24 000		
	Rent income/Profit and loss		24 000	1
(v)	Bank	300		
	Debtor		300	1
				(7)

(b)

Statement of adjusted profit for the year ended 30 April 1997

		$	$	
Profit before adjustments			78 500	½
Add:	Wages and salaries (i)	25 000		½
	Bad debts (ii)	700		½
	Decrease in provision for doubtful debts (ii)	7 700		½
	Rent receivable (iv)	24 000	57 400	½
			135 900	
Less:	Increase in provision for depreciation on plant and equipment (iii)		16 250	½
Adjusted profit			119 650	
				(3)

4. 1992.Q9 (modified, item (v) deleted, suspense account balance modified)

(a)

Journal

		Dr. $	Cr. $	
(i)	Debtors	14 434		
	Suspense		14 434	1
(ii)	Sales	35 000		
	Depreciation	10 000		
	P & L	5 000		
	Motor vehicle		50 000	2
(iii)	Suspense	1 500		
	Returns inwards / Trading, P&L		1 500	1
	Stock	23 500		
	Trading		23 500	1
(iv)	Purchases / Trading	16 500		
	Office equipment		16 500	1
	Suspense	16 500		
	Bank		16 500	1

(b)

Statement for the revised net profit

	$	$	
Balance as per balance sheet		31 200	
Add: Returns inwards overcast	1 500		0.5
Closing stock undervalued	23 500	25 000	0.5
		56 200	
Less: Sales overcast	35 000		0.5
Purchases undercast	16 500		0.5
Loss on disposal	5 000	56 500	0.5
Correct net profit (loss)		(300)	

(c)

(c)

Revised balance sheet as at 31.3.1992

		$	$		$	$	
	Fixed assets			**Capital**			
1	Office equipment (95 000½ - 16 500½)	78 500		Bal at 1.4.1991		53 210	½
½	Less: Acc. dep.	11 400	67 100	Less: Drawings		20 000	½
						33 210	
1	Motor vehicles (153 300½ - 50 000½)	103 300		Add: Net profit (loss)		(300)	
						32 910	
1	Less: Acc. dep. (54 268½ - 10 000½)	44 268	59 032				
	Current assets			**Liabilities**			
1	Stock (39 950½ + 23 500½)	63 450		Accrued interest	11 000		½
1	Debtors (20 700+14 434+1700)	36 834		Creditors	93 306		½
½	Prepaid rent	5 000		Loan	100 000	204 306	½
1	Bank (22 300½ - 16 500½)	5 800	111 084				
			237 216			237 216	(9½)

*Since the question is modified, ignore the calculation workings of "debtors". Please check the total amount only.

Total: 20 marks

Working

Suspense

	$		$
Returns inwards (iii)	1 500	Balance b/f (*modified*)	3 566
Bank (iv)	16 500	Debtor (i)	14 434
	18 000		18 000

5. 1993.Q8

(a)

Journal

		Dr. $	Cr. $	
(i)	Provision for depreciation on Plant & Machinery 8000 - [80000½ - (20000 - 8000)] × 10%	1 200		1
	Provision for depreciation on Fixtures & fittings 15000 - [75000 - (35000 -15000)] x 20%	4 000		1
	Profit & Loss / Suspense		5 200	½
(ii)	Stock ($10.2 - 1.2) × 250	2 250		½
	Profit & Loss / Suspense		2 250	½
(iii)	Profit & loss / Suspense	408		½
	Provision for doubtful debts (4150 × 8%)		332	½
	Provision for discounts allowed (4150½ - 332½) × 2%		76	1
(iv)	Accruals	120		½
	Prepayment	120		½
	Profit & Loss / Suspense		240	½
(v)	Profit & Loss / Suspense	7 500		½
	Claim on damages		7 500	½
				(8)

(b)

Statement to calculate the corrected Net Profit

	$	$	
Profit as per draft account		29 000	
Add: (i) wrong depreciation method (1200 + 4000)	5 200		1
(ii) closing stock understated	2 250		1
(iii) prepayment treated as accrual (120 + 120)	240	7 690	1
		36 690	
Less: (iv) Provision for doubtful debts and discount allowed (332 + 76)	408		1
(v) Claim on damages by customers	7 500	7 908	1
Adjusted net profit		28 782	(5)

(c)

Statement to show the revised working capital as on 31 March 1992

	$	$	
CURRENT ASSET			
Stock (8200 + 2250)		10 450	0.5
Debtors	4 150		0.5
Less: Provision for doubtful debts	332		0.5
	3 818		
Less: Provision for discounts allowed (Note: out of DSE syllabus)	76	3 742	0.5
Prepayment		120	0.5
Bank		2 650	0.5
		16 962	
Less: CURRENT LIABILITIES			
Creditors	3 340		0.5
Claim on damage	7 500	10 840	0.5
Working Capital as on 31 March 1993		6 122	(4)

(d)

- ✓ Working capital, also referred to as net trading assets or net current assets, represents the excess of current assets over current liabilities.
- ✓ It indicates how much of a company's current asset has to be used to settle the liabilities due for payment in the same period.
- ✓ A small or negative amount of working capital connotes a dangerous liquidity position and poor management of short term finance.
- ✓ Good answers should state that a high level of working capital without a corresponding high stock turnover and profitability implies that too many current assets are being tied up in the working capital.

(3)

Total: 20 marks

6. 1995.Q10

For item (iii), ignore provision for discounts allowed. (Out-of-syllabus)

		$	$	
(i)	Accruals (Rent payable)	7 500		1
	Rent (Profit and loss)		7 500	1
(ii)	Premises	4 000		½
	Rent receivable (Profit and loss)		4 000	½
(iii)	Bad debts (Profit and loss)	610		½
	Debtors		610	½
	Provision for doubtful debts	208		1
	Profit and loss		208	1
	Profit and loss	1 070		1
	Provision for discounts allowed		1 070	1
(iv)	Equipment	12 000		½
	Purchases (Trading)		12 000	½
	Profit and loss	1 200		½
	Provision for depreciation - equipment		1 200	½
(v)	Stock	1 175		½
	Trading		1 175	½
(vi)	Suspense	100		½
	Wages (Profit and loss)		100	½
(vii)	Suspense	90		½
	Creditor		90	½
				(13)

(b)

Statement of adjusted profit for the year ended 30 April 1995

	$	$	
Net profit per draft accounts		47 627	
Add: Rent wrongly accrued (i)	7 500		½
Rent receivable (ii)	4 000		½
Reduction in provision for doubtful debts (iii)	208		½
Equipment wrongly debited to purchases account (iv)	12 000		½
Omission of closing stock (v)	1 175		½
Wages over-cast (vi)	100	24 983	½
		72 610	
Less: Bad debts written off (iii)	610		½
Provision for discounts allowed (iii)	1 070		½
Provision for depreciation on equipment (iv)	1 200	2 880	½
Adjusted profit		69 730	½
		======	(5)

(c)

Suspense account

		$		$	
1	Creditors ($2980 – $2890)	90	Balance b/d	190	½
½	Wages	100			
		190		190	(2)

7. 1996.Q10

(a)

	JOURNAL	Dr. $	Cr. $	
(i)	Sharp Limited	1 350		½
	Suspense		1 350	½
(ii)	Furniture	3 100		½
	Purchases (Trading)		3 100	½
(iii)	Suspense	315		½
	Profit and Loss (Provision for Depreciation – Office Equipment)		315	½
(iv)	Bad debts (Profit and Loss)	1 300		½
	Suspense		1 300	½
(v)	Elegant Limited (Creditor)	1 630		½
	Elegant Limited (Debtor)		1 630	½
(vi)	Purchases	610		½
	Allen Limited		610	½
(vii)	Sales	75 000		½
	Ordinary Share Capital (100 000 × $1.50 × ½)		75 000	½
	General Reserve	75 000		½
	Ordinary Share Capital		25 000	½
	Share Premium (100 000 × $0.50)		50 000	1
(viii)	Insurance Company	800		½
	Insurance Claim (Profit and Loss)		800	½
(ix)	Mr Lee	731		½
	Bad Debts Recovery (Profit and Loss)		731	½
	Cash/Bank	731		½
	Mr Lee		731	½
(x)	Returns Inwards (Trading)	90		½
	Returns Outwards (Trading)		90	½
				(13)

(b)

Suspense account

		$		$	
	Balance b/d	2 335	Sharp Limited (i)	1 350	1
1	Provision for depreciation – office equipment (iii)	315	Bad debts (iv)	1 300	1
		2 650		2 650	(3)

(c)

Statement of adjusted profit for the year ended 30 April 1996

		$	$	
Net Profit per draft accounts			129 380	½
Add:	Furniture wrongly debited to purchases account (ii)	3 100		½
	Provision for depreciation overstated (iii)	315		½
	Insurance claim on damaged stock (viii)	800		½
	Bad debts recovered (ix)	731	4 946	½
			134 326	
Less:	Bad debts written off (iv)	1 300		½
	Credit purchases omitted (vi)	610		½
	Proceeds from share issue wrongly credited to sales (vii)	75 000	76 910	½
Adjusted profit			57 416	(4)

Total: 20 marks

8. 1998.Q10

Debbie Limited
Journal

	Debit $	Credit $	
Bank charges (Profit and loss)	270		0.5
Suspense		270	0.5
Creditors	3 450		0.5
Bank		3 450	0.5
Suspense	200		0.5
Smith Limited		200	0.5
Sales (Trading)	8 600		0.5
Provision for depreciation on motor vehicles	12 000		0.5
Motor vehicles		12 000	0.5
Gain on disposal of motor vehicles (Profit and loss)		8 600	0.5
Insurance company	14 000		0.5
Loss due to burglary (Profit and loss)		14 000	0.5
Office equipment	7 500		0.5
Stock		7 500	0.5
Profit and loss ($7500 x 25%)	1 875		0.5
Provision for depreciation on office equipment		1 875	0.5
Purchases (Trading)	120		0.5
Suspense	90		0.5
Discounts received (Profit and loss)		210	0.5
Suspense	3 976		0.5
Selling expenses (Profit and loss)		1979	0.5
Sales (Trading)		1997	0.5
			(11)

Suspense account

		$		$	
1	Smith Limited (iii)	200	Balance b/d	3 996	
1	Discount received (vii) (210 – 120)	90	Bank charges (i)	270	1
1	Sales and selling expenses (viii)	3 976			
		4 266		4 266	(4)

Statement of adjusted profit
for the year ended 31 March 1998

		$	$	
t profit per draft accounts			14 290	½
ld:	Insurance claim (v)	14 000		½
	Discount received wrongly credited to purchases (vii) ($210 – $120)	90		1
	Sales wrongly debited to selling expenses (viii) ($1997 + 1979)	3 976 +7800 +18600	18 066	1
			32 356	
ss:	Bank charges (i)	270		½
	Provision for depreciation on office equipment (vi) ($7500 × 25%)	1 875 −1800	2 145	1
ljusted net profit		−8600	30 211	½

(5)

Total: 20 marks

9. 2001.Q10

(a)

Journal

		Dr. $	Cr. $	
(i)	Suspense	1 000		½
	Salaries (Profit and loss)		1 000	½
(ii)	Debtors ($3812 – 3182)	630		½
	Suspense		630	½
(iii)	Provision for doubtful debts ($1300 + 1100)	2 400		½
	Profit and loss		2 400	½
(iv)	Debtors [$8 000 × (10% – 7%)]	240		½
	Discounts allowed (Profit and loss)		240	½
(v)	Rent (Profit and loss)	6 000		½
	Suspense		6 000	½
(vi)	Insurance	3 658		1
	Profit and loss		3 658	½

Alternative answer			
Prepaid insurance	1 829		½
Accrued insurance	1 829		½
Insurance (Profit and loss)		3 658	½

(vii)	Repairs (Profit and loss)	9 500		½
	Motor vehicles		5 900	½
	Cash		3 600	½
	Provision for depreciation – motor vehicles	590		½
	Profit and loss ($5900 × 10%)		590	½
	Buildings	40 000		½
	Wages (Profit and loss)		40 000	½
	Profit and loss ($40 000 × 10%)	4 000		½
	Provision for depreciation – buildings		4 000	½

(11)

(b)

Statement of adjusted profit for the year ended 31 March 2001

		$	$	
Net profit per draft accounts			156 403	½
Add:	Credit side of salaries undercast (i)	1 000		½
	Decrease in provision for doubtful debts (iii)	2 400		1
	Discounts allowed overstated (iv)	240		1
	Prepaid insurance wrongly treated as accrual (vi) ($1829×2)	3 658		1
	Provision for deprecation on motor vehicles overstated (vii)	590		1
	Buildings – wages for construction (vii)	40 000	47 888	1
			204 291	
Less:	Opening balance of prepaid rent omitted (v)	6 000		½
	Repairs on motor vehicle (vii)	9 500		1
	Provision for depreciation – Buildings (vii)	4 000	19 500	1
Adjusted net profit			184 791	½

(9)

Total: 20 marks

10. 2000.Q10 [Answer is based on modified question, not the original question.]

(a) Ignore "Creditors control".

	Journal	Dr	Cr	
		$	$	
(i)	Tony Company / Creditors control ($2600 – $260)	2 340		½
	Suspense		2 340	½
(ii)	No debit entry / Trial balance	–		½
	Suspense		400	½
(iii)	Office equipment	1 200		½
	Wages / Profit and loss		1 200	½
(iv)	Sales / Trading	20		½
	Suspense		20	½
(v)	Profit and loss	725		½
	Provision for doubtful debts ($2900÷2%×½%)		725	1½
(vi)	Overseas Ltd / Creditors control	500		½
	Purchases / Trading ($5000×10%)		500	1
	Cash ($500 + 315)	815		1
	Discounts received / Profit and loss ($4500×7%)		315	1
	Overseas Ltd / Creditors control		500	½

Alternative answer:

	Dr	Cr	
Cash	815		(1)
Purchases / Trading		500	(2)
Discounts received / Profit and loss		315	(1)

		Dr. $	Cr. $	
(vii)	Sales (Profit and loss)	1 500		0.
	Suspense		1 500	0.
	Drawings [$1,500 / (1+25%)]	1 200		0.
	Purchases (Profit and loss)		1 200	0.
			(12)	

(b)

Suspense

	$		$
Difference per trial balance / Balance b/d	4,260	Tony Company (i)	2,340
		Cash – balance omitted (ii)	400
		Sales (iv)	20
		Sales (vii)	1,500
	4,260		4,260

(c)

Statement of adjusted net profit for the year ended 31 March 2000

		$	$	
Net profit per draft account			39 426	0.5
Add:	Installation cost wrongly debited to wages (iii)	1 200		0.5
	Purchases overstated (vi)	500		0.5
	Cash discount received (vi)	315	2 015	0.5
Less:	Sales overstated (iv)	20		0.5
	Under-provision for doubtful debts (v)	725		0.5
	Drawing of goods recorded as sales (vii)	300	1 045	0.5
Adjusted net profit			40 396	0.5

(4)

Total: 20 marks

11. 1994.Q10 (out of syllabus)
12. 1999.Q7 (part b out of syllabus)
13. 2002.Q5

(A)

(1) errors of commission
(2) errors of principle
(3) errors of omission
(4) errors of original entry
(5) compensating errors
(6) complete reversal of entries

0.5 each, max: 3

(3)

(B)

Journal

		Dr	Cr	
		$	$	
(i)	Furniture	5 000		½
	Purchase (Trading)		5 000	½
	Depreciation (Profit and loss)	1 250		½
	Provision for depreciation – furniture		1 250	1
(ii)	Trading	1 347		½
	Stock		1 347	½
(iii)	Creditors	1 000		½
	Purchases (Trading)		1 000	½
(iv)	Loan	6 000		½
	Suspense		5 400	½
	Loan interest expense		600	½
(v)	Sales (Trading)	1 870		½
	Suspense		1 870	½
(vi)	Discounts allowed (Profit and loss)	460		½
	Suspense	180		½
	Sales (Trading)		640	½
(vii)	Debtors	900		½
	Bad debts (Profit and loss)		900	½
	Profit and loss	900		½
	Provision for doubtful debts		900	½
	Alternative answer:			
	Debtors	900		1
	Provision for doubtful debts		900	1
(viii)	Suspense	540		½
	Telephone expenses (Profit and loss)	540		½
	Insurance (Profit and loss)		1 080	½

(12)

(b)

Suspense

		$		$	
1	Difference in trial balance	6 550	Loan (iv)	5 400	1
1	Sales (vi)	180	Sales (v)	1 870	1
1	Insurance (viii)	540			
		7 270		7 270	

(5)

(c)

Statement of adjusted net profit for the year ended 31 March 2002

		$	$	
Net profit per draft account			67 246	½
Add:	Purchase of furniture (i)	5 000		1
	Free samples treated as purchases (iii)	1 000		1
	Loan repayment wrongly recorded as loan interest (iv)	600		1
	Discounts allowed wrongly debited to sales (vi) (640 – 460)	180		1
	Telephone expenses recorded twice as insurance (viii) (540×2 – 540)	540	7 320	1
			74 566	
Less:	Provision for depreciation – furniture (i)	1 250		1
	Closing stock over-valued (ii)	1 347		1
	Sales day book overcast (v)	1 870	4 467	1
Adjusted net profit			70 099	½

(9)

Total: 29 marks

14. 2003.Q5

Journal

		Debit	Credit	
		$	$	
(i)	Provision for doubtful debts	1 300		½
	Profit and loss ($5200 ÷ 4% × 1%)		1 300	1
(ii)	Sales (Trading)	9 150		½
	Provision for depreciation	14 400		½
	Loss on disposal of furniture (Profit and loss)	450		1
	Furniture		24 000	½
	Provision for depreciation ($24 000 x 20%)	4 800		1
	Depreciation (Profit and loss)		4 800	½
(iii)	Debtors – T Chan	20 000		½
	Suspense		20 000	½
(iv)	Dividend (Profit and loss appropriation)	36 000		½
	Administrative expenses (Profit and loss)		36 000	½

(v)	Insurance (Profit and loss)	692		1
	Suspense		692	½
	No debit entry / Trial balance	—		½
	Suspense		518	½
(vi)	Carriage outwards (Profit and loss)	1 205		½
	Carriage inwards (Trading)		1 205	½
(vii)	Suspense	840		½
	Purchases (Trading)		840	½
(viii)	Sales (Trading)	3 020		½
	Creditors		3 020	½
(ix)	Suspense	300		½
	Returns outwards (Trading)		300	½
(x)	Discounts allowed (Profit and loss)	450		½
	Suspense	90		½
	Sales (Trading)		540	½
	Discounts received (Profit and loss)	449		1
	Suspense		449	½
				(17)

(b)

Suspense

		$		$	
1	Difference in trial balance	20 429	Debtors (iii)	20 000	½
½	Purchases (vii)	840	Insurance (v)	692	½
½	Returns outwards (ix)	300	Prepaid rates omitted (v)	518	1
½	Sales – discounts allowed (x)	90	Discounts received (x)	449	½
		21 659		21 659	(5)

(c)

Statement of adjusted profit for the year ended 31 March 2003

		$	$	
Net profit per draft accounts			183 496	½
Add:	Over-provision for doubtful debts (i)	1 300		½
	Provision for depreciation – furniture (ii)	4 800		½
	Payment of dividend recorded as administrative expenses	36 000		½
	Purchases overcast (vii)	840		½
	Returns outwards not recorded (ix)	300		½
	Discounts allowed debited to sales (x) ($540 – 450)	90	43 330	½
			226 826	
Less:	Loss on disposal of furniture (ii)	450		½
	Cash sale of furniture credited to sales (ii)	9 150		½
	Opening balance of prepaid insurance omitted (v)	692		½
	Refund of overpayment by creditor treated as sales (viii)	3 020		½
	Trade discount received credited as cash discount (x)	449	13 761	½
Adjusted net profit			213 065	1
				(7)

Total: 29 marks

15. 2000.Q2

The trial balance will not reveal the following errors:

(1) Error of omission: 2
The complete omission of recording an accounting transaction. For example, a credit note for $50 had been entirely omitted from the Returns Inwards Book and the related ledger accounts.

(2) Error of commission: 2
An entry is made in a wrong account of the same category. For example, an entry is made in Mr Lee's account instead of Mr Lu's account.

(3) Error of principle: 2
An entry is made in the wrong category of accounts. For example, a purchase of stationery is wrongly debited to the office equipment account instead of the stationery expenses account.

(4) Error of original entry: 2
An incorrect amount is debited and credited to two relevant accounts in the ledger. For example, credit sales of $500 had been recorded in both the debtors and sales account as $5000. 2

(5) Compensating errors: 2
A mistake in amount in an account is compensated by a mistake of the same amount in another account. For example, an overstatement of $100 in the purchases account is exactly offset by another overstatement of $100 in the discounts received account. 2

(6) Complete reversal of entries: 2
The debit entry of a transaction is recorded as a credit while the credit entry is recorded as a debit. For example, a payment to creditor has been recorded as a debit to cash account and a credit to creditor's account.

(2 marks for each relevant error, max. 10 marks) Total: 10 marks

Q15A:CE2004.Q4(b)

Journal

		Debit	Credit
		$	$
(i)	Suspense	600	
	Operating expenses		600
(ii)	Office equipment	3 000	
	Suspense		3 000
(iii)	Bad debts	1 232	
	Commission revenue	1 232	
	Debtors		1 232
	Suspense		1 232
(iv)	Sales	1 100	
	Purchases	1 000	
	Debtors		1 100
	Creditors		1 000
(v)	Sales	4 235	
	Drawings	4 235	
	Suspense	90	
	Operating expenses		4 325
	Purchases		4 235

16. 2006.Q5

(a)

Cash book (bank column only)

		$		$	
1½	Balance b/d ($19 900 + $315 000 – $300 700)	34 200	Bank charges	80	1
			Star Ray Limited – dishonoured cheque	10 250	1
1	Bank deposit interest	650			
1	Kettler Limited	2 400	Balance c/d	26 920	½
		37 250		37 250	

(6)

(b)

Bank reconciliation statement as at 31 March 2006 ½

		$	
Adjusted balance as per cash book		26 920	
Add:	Unpresented cheque	16 500	1
		43 420	
Less:	Lodgements not yet recorded by bank	6 630	1
Balance as per bank statement		36 790	½

(3)

(c)

Journal

		Debit	Credit	
		$	$	
(v)	Salaries (Profit and loss)	500		1
	Suspense		500	1
(vi)	Purchases (Trading)	2 000		1
	Creditors		2 000	1
(vii)	Jane Limited ($870 – $780)	90		1
	Returns inwards (Trading)		90	1
(viii)	Prepaid electricity	1 240		1
	Electricity (Profit and loss)		1 240	1
(ix)	Discount allowed (Profit and loss)	450		1
	Suspense	8 550		1
	Mr Wu		9 000	1
(x)	Bank loan	200 000		1
	6% debentures		200 000	1
	Debenture interest (Profit and loss)	1 000		1
	Interest payable (200 000 × 6% × 1/12)		1 000	1

(15)

(d)

Statement of adjusted profit for the year ended 31 March 2006

		$	$	
Net Profit per draft accounts			80 260	
Add:	Bank deposit interest not recorded	650		½
	Electricity prepaid	1 240		½
	Returns inwards overstated	90	1 980	½
			82 240	
Less:	Bank charges not recorded	80		½
	Salaries undercast	500		½
	Purchases omitted	2 000		½
	Discount allowed not recorded	450		½
	Debenture interest accrued	1 000	4 030	½
Adjusted net profit			78 210	1

(5)

Total: 29 marks

17. 2007.Q7

(a)

Bamboo Limited

Adjusted trial balance as at 31 March 2007 ½

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

(5)

(b)

Journal

		Debit $	Credit $	
(i)	Suspense	1 600		½
	Interest income		800	½
	Prepaid selling expenses		800	½
(ii)	Bank (Cash)	40		½
	Debtors	4 844		½
	Sales		4 884	½
(iii)	Administrative expenses	300		½
	Creditors		300	½
(iv)	Administrative expenses	16 000	}	½
	Plant and equipment		10 600	½
	Suspense		5 400	½
	Accumulated depreciation – plant and equipment	2 120		½
	Administrative expenses ($10 600 × 20%)		2 120 }	
(v)	Stock	6 000		½
	Cost of goods sold		6 000	½
(vi)	Interim dividend	12 000		½
	Deposits received from debtors		12 000	½
(vii)	Share application money	70 000		½
	Ordinary share capital		40 000	½
	Share premium ($0.4 × 40 000)		16 000	½
	Bank ($1.4 × 10 000)		14 000	½

(10)

(c)

Bamboo Limited
Balance sheet as at 31 March 2007

	$	$	$	
Fixed assets				
Plant and equipment (692 460 – 10 600)			681 860	1
Less: Accumulated depreciation (246 540 – 2120)			244 420	1
			437 440	
Current assets				
Stock (22 100 + 6000)		28 100		1
Debtors (105 690 + 4844)		110 534		1
Prepaid selling expenses (8000 – 800)		7 200		1
Cash at bank (47 400 + 40 – 14 000)		33 440		1
		179 274		
Less: **Current liabilities**				
Creditors (96 710 + 300)	97 010			1
Deposits received from debtors (16 000 + 12 000)	28 000	125 010		1
Working capital			54 264	
			491 704	
Capital and reserves				
Ordinary share capital (180 000 + 40 000)			220 000	1
Share premium			16 000	½
Retained profits *(workings)*			135 704	4
			371 704	
Long-term liabilities				
Bank loan			120 000	½
			491 704	

(14)

Total: 29 marks

18. 2008.Q7

Please note that some items are out-of-syllabus in this question. Refer to amendment notes.

Journal

		Debit $	Credit $	
(i)	Sales	20 000		½
	Deposit from customers / Unearned revenue		20 000	½
(ii)	Sales	3 000		½
	Trade debtor - J Morgan		3 000	½
(iii)	*No debit entry (List of debtors' balances)*	–		½
	Suspense ($880 + $370)		1 250	½
(iv)	Returns inwards ($700 × 90%)	630		½
	Trade debtor - MC Lee		630	½
(v)	Sundry expenses	36		½
	Petty cash		36	½
(vi)	*No entry required*	–	–	½
(vii)	Carriage outwards	335		½
	Suspense	335		½
	Carriage inwards		670	½
(viii)	Suspense	1 000		½
	Sales		1 000	½
(ix)	Rental income	42 000		½
	Prepaid rent ($24 000 × 2/3)	16 000		½
	Rental expense	8 000		½
	Suspense		66 000	½
(x)	Trade creditor - Gregg Chan	795		½
	Stationery		795	½

(b)

Statement to update the balances total of sales ledger as at 31 December 2007

		$	$	
Net balances total as per sales ledger			67 520	
Add:	(iii) Debit balance treated as credit balance		1 250	1
			68 770	
Less:	(ii) Cash received from J Morgan	3 000		1
	(iv) Returns inwards from MC Lee omitted	630	3 630	1
Updated balances total of sales ledger			65 140	1
				(4)

Part (c) – out of syllabus; for reference only.

(c)

Debtors control

		$		$	
½	Balance b/d *(balancing figure)*	68 498	Cash received from J Morgan (ii)	3 000	1
1	Sales undercast (viii)	1 000	Returns inwards from MC Lee omitted (iv)	630	1
			Contra with purchases ledger (vi)	728	1
			Balance c/d	65 140	½
		69 498		69 498	
					(5)

(d)

Statement to calculate the correct net profit for the year ended 31 December 2007

		$	$	
Draft net profit			254 988	
Add:	(vii) Carriage outwards posted twice as carriage inwards	335		1
	(viii) Sales undercast	1 000		1
	(x) Payment to trade creditor recorded as stationery expenses	795	2 130	1
			257 118	
Less:	(i) Sales money received in advance	20 000		1
	(ii) Cash repayment from J Morgan treated as cash sales	3 000		1
	(iv) Returns inwards from MC Lee omitted	630		1
	(v) Sundry expenses omitted	36		1
	(ix) Rental expense recorded as rental income ($42 000 + $8000)	50 000	73 666	1
Corrected net profit			183 452	1
				(9)
				(11)

Total: 29 marks

19. 2009.Q2(B)

(a)

Journal

		Dr $	Cr $	
(i)	Salaries (profit and loss)	2 000		1
	Prepayments		1 000	0.5
	Accruals		1 000	0.5
(ii)	Rates (profit and loss) ($860 x 2)	1 720		1
	Suspense		1 720	1
(iii)	Accumulated depreciation – office equipment	8 000		0.5
	Debtors	130		0.5
	Office equipment		8 000	0.5
	Gain on disposal of assets (profit and loss)		130	0.5
	Accumulated depreciation – office equipment ($8 000 x 10%)	800		0.5
	Depreciation (profit and loss)		800	0.5
				(7)

(b)

Statement of adjusted net profit for the year ended 31 December 2008

		$	$	
Net profit per draft accounts			164 555	½
Add:	Gain on disposal of assets	130		½
	Depreciation on fully depreciated asset	800	930	1
			165 485	
Less:	Accrued salaries recorded as prepayment	2 000		½
	Opening balance of prepaid rates recorded as credit balance	1 720	3 720	½
Adjusted net profit			161 765	1
				(4)

Total: 14 marks

20. 2010.Q7

(a)

Journal

		Debit	Credit	
		$	$	
(i)	Purchases	520		½
	Suspense		520	½
(ii)	Returns inwards	560		½
	Returns outwards	650		½
	Suspense		1 210	½
(iii)	Sales	2 800		½
	Debtor – Russ Company		2 800	½
	Drawings ($2 800 ÷ 140%)	2 000		1
	Purchases		2 000	1
(iv)	Debtors ($972 - $792)	180		1
	Creditors		180	1
(v)	Purchases	700		½
	Discounts received		700	½
(vi)	Drawings	300		½
	Telephone expenses		300	½
(vii)	Sales ($1000 x 140% x 10%)	140		1
	Debtors		140	½
(viii)	Accumulated depreciation – office equipment	64 000		½
	Motor vehicles	100 000		½
	Loss on disposal of fixed assets	16 000		1
	Accumulated depreciation – motor vehicles		100 000	½
	Office equipment		80 000	½

		Debit	Credit	
(ix)	Carriage inwards	123		½
	Suspense	123		½
	Sundry expenses		246	½
(x)	Suspense	668		½
	Commission income		334	½
	Commission expenses		334	½

(17)

(b)

Suspense

		$		$	
1	Balance b/d *(balancing figure)*	939	Purchases	520	½
½	Sundry expenses	123	Returns inwards	560	½
½	Commission income	334	Returns outwards	650	
	Commission expenses	334			
		1 730		1 730	

(3)

(c)

Statement to calculate the corrected net profit for the year ended 31 December 2009

		$	$	
Draft net profit			193 450	½
Add:	Telephone expenses paid for the owner (vi)	300		1
	Carriage inwards posted twice as sundry expenses (ix)	123		1
	Commission income recorded as commission expenses (x)	668	1 091	1
			194 541	
Less:	Purchases undercast (i)	520		1
	Returns inwards recorded as returns outwards (ii)	1 210		1
	Drawings recorded as sales (iii)	800		1
	Sales made at a special discount (vii)	140		1
	Loss on disposal of fixed assets (viii)	16 000	18 670	1
Corrected net profit			175 871	½

(9)

Total: 29 marks

DSE Questions

1. SP.P2A.Q4(b)

Types of errors:
- Error of complete omission
- Error of commission
- Error of complete reversal
- Error of original entries

(1 mark for each relevant type, max. 4 marks)

2. SP.P2A.Q6

(a)

Journal

		DR $	CR $	
(i)	(1) Bank	16 120		½
	Profit and loss: overdraft interest		8 060 }	
	Profit and loss: dividend income		8 060 }	½
	(2) Deposit on acquisition of motor vehicle	10 000		½
	Motor vehicles		10 000	½
	Accumulated depreciation - motor vehicles	2 500		½
	Profit and loss: depreciation		2 500	½
(ii)	Profit and loss: insurance	1 300		½
	Suspense		1 300	½
	Rates prepaid	5 500		½
	Suspense		5 500	½
(iii)	Profit and loss: bad debts	10 800		½
	Account receivables		10 800	½
	Allowance for doubtful debts	540		½
	Profit and loss		540	½
(iv)	Profit and loss	10 000		½
	Inventories		10 000	½
				(8)

(b)

Healthy Food Company
Statement of financial position as at 31 December 20X6

	$	$	$	
ASSETS				
Non-current assets				
Office machinery			148 000	
Less: Accumulated depreciation			45 300	
			102 700	½
Current assets				
Inventories (127 600 – 10 000)			117 600	½
Account receivables, net			75 240	1
Deposit (re: motor vehicle)			10 000	½
Rates prepaid			2 750	1
			205 590	
Total Assets			308 290	
CAPITAL AND LIABILITIES				
Capital				
Balance as at 1 January 20X6			114 622	½
Add: Net profit for the year (22 068 + 8060 + 8060 + 2500 - 1300 - 10800 + 540 - 10 000)			19 128	1½
			133 750	
Non-current liabilities				
Bank loan			100 000	½
Current liabilities				
Account payables			68 750	½
Bank overdraft			5 790	½
			74 540	
Total Capital and Liabilities			308 290	
				(7)

3. PP.P2A.Q3(b)

Journal

2011		Dr	Cr	
Dec 31		$	$	
(i)	Profit and loss / Interest expense	5 050		0.5
	Accrued loan interest		5 050	0.5
(ii)	Accumulated depreciation – Motor vehicles	40 000		0.5
	Cash	48 000		0.5
	Motor vehicles		80 000	0.5
	Profit and loss / Gain on disposal of motor vehicles		8 000	0.5
				(3)

4. 2012.P2A.Q9(a)

(1)

Journal

2011		Dr	Cr	
December 31		$	$	
(i)	Retained profit ($716 400 x 5%)	35 820		0.5
	Allowance for doubtful debts		35 820	0.5
(ii)	Cash at bank (600 000 x $6)	3 600 000		0.5
	Ordinary share capital (600 000 x $6)		3 600 000	1
	~~Share premium (600 000 x $4)~~		~~2 400 000~~	~~0.5~~
(iii)	Cash at bank	900 000		0.5
	2% debentures		900 000	0.5
	Trade payables ($225 000 / 96%)	234 375		0.5
	Cash at bank ($900 000 / 4)		225 000	0.5
	Retained profit		9 375	0.5
	Retained profit ($900 000 x 2% x 1/12)	1 500		0.5
	Interest payable		1 500	0.5
(iv)	Accumulated depreciation	726 000		0.5
	Retained profits	9 000		0.5
	Property, plant and equipment		726 000	0.5
	Cash at bank ($165 000 - $156 000)		9 000	0.5
(v)	Retained profits	135 000		0.5
	General reserve		135 000	0.5
(vi)	Retained profits	424 800		0.5
	Prepayment		424 800	0.5
				(10)

(2)

Dragon Ltd

Statement of financial position as at 31 December 2011

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

****Change the answer as follows:**

Ordinary shares, fully paid ($4 3190 000 + $6 x 600 000)	7,919,000	
General reserves ($0 + $135 000)	135 000	
Share premium - Delete this item.		

5. 2013.P2A.Q1(a)

Accounting principle/concept violated:

- Money measurement concept 1

Explanations: 2

- Only transactions capable of being expressed in monetary terms are included in the accounting records of an entity
- Good reputation cannot be quantified in terms of money and should not be reflected in the financial statements
- Goodwill would be recorded only when it is purchased from an existing business.

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

	Dr $	Cr $	
Sundry revenue	300 000		0.5
Goodwill		300 000	0.5
			(4)

6. 2014.P2A.Q9(c)

Journal

2013 Dec 31		Dr $	Cr $	
(vii)	Selling expenses	16 000		0.5
	Purchases		16 000	0.5
	Sales	22 900		0.5
	Trade receivables		22 900	0.5
(viii)	Prepaid rental expenses ($20 400 x 3/12)	5 100		0.5
	Rental expenses		5 100	0.5
(ix)	Maintenance expenses ($108 000 + $72 000 + $144 000)	324 000		0.5
	Maintenance fee revenue ($108 000 x 2/36 + $72 000 x 1/24 + $144 000 x 1/36)		13 000	1
	Unearned revenue		311 000	0.5
				(5)

BAFS – Correction of errors Answers

7. 2015.P2A.Q6(a),(b)

(a)

Journal

2014 December 31		Dr $	Cr $	
(i)	Trade receivables	500		0.5
	Sales		500	0.5
(ii)	Rates	3 000		0.5
	Rental deposits		3 000	0.5
(iii)	Electricity	2 250		0.5
	Accrued electricity		2 250	0.5
(iv)	Suspense	1 200		0.5
	Trade receivables		1 200	0.5
(v)	Purchases	450		0.5
	Suspense	90		0.5
	Discounts received		540	0.5
(vi)	Accumulated depreciation – motor van	30 000		0.5
	Drawings	50 000		0.5
	Motor van			0.5
				(7)

(b)(i) Error of (complete) omission 1

(ii) Error of principle 1

(iii) Error of original entry 1

(3)

8. 2016.Q8

(a)

Journal

		Dr. $	Cr. $	
(i)	Short-term loan ($480,000 - $456,000)	24,000		0.5
	Delivery vans		24,000	0.5
	Accumulated Depreciation - Delivery vans ($24,000 / 4 x 1/12)	500		0.5
	Retained profits		500	0.5
	Retained profits ($24,000 / 5 months) or [($480 000 - $456 000) /5]	4,800		0.5
	Interest payable		4,800	0.5
(ii)	Retained Profits [$32,250 - ($22,200 - $2,600)]	12,650		0.5
	Inventory		12,650	0.5
(iii)	Retained Profits	15,000		0.5
	Trade Receivables		15,000	0.5
	Inventory [$15,000 / (1 + 25%) or $15 000 x4/5]	12,000		0.5
	Retained Profits		12,000	0.5
(iv)	Trade Receivables	3,000		0.5

		Dr	Cr	
	Deposits from customers		3,000	0.5
	Allowance for doubtful debts [$10 000 - $503 000 - $15 000] x 2%]	240		0.5
	Retained profits		240	0.5
(v)	Cash at bank	11,800		0.5
	Trade payables		11,800	0.5

(b)

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

	$	$	$	
ASSETS				
Non-current assets				
Office equipment, net ($840 000 - $210 000)			630 000	0.5
Delivery vans, net ($480 000 - $24 000) – ($10 000 - $500)			446 500	1
			1 076 500	
Current assets				
Inventory ($645 000 - $12 650 + $12 000)		644 350		1
Trade receivables ($503 000 - $15 000)	488 000			1
Less: Allowance for doubtful debts ($10 000 - $240)	(9 760)	478 240		.5
Cash at bank ($154 400 + $11 800)		166 200		0.5
			1 288 790	
Total assets			2 365 290	
EQUITY AND LIABILITIES				
Equity				
Ordinary share capital			1 000 000	0.5
Retained profits (workings)			235 290	1.5
			1 235 290	
Non-current liabilities				
Long-term bank loan			200 000	0.5
Current liabilities				
Trade payables ($454 400 + $11 800)		466 200		0.5
Short-term loan ($480 000 - $24 000)		456 000		0.5
Interest payable		4 800		0.5
Deposits from customers		3 000	930 000	0.5
Total equity and liabilities			2 365 290	

HKEAA version:

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

Alternative:

Workings:

Statement to update retained earnings

		$	$
Balance as per statement of financial position			255,000
Add:	Depreciation overstated (i)	500	
	Decrease in provision for doubtful debts (iv)	240	740
Less:	Interest expense on short-term loan (i)	4,800	
	Adjustment of inventory vaule to NRV (ii)	12,650	
	Unrealized sales revenue (net) ($15,000 - $12,000) (iii)	3,000	20,450
Updated retained earnings			235,290

(c)

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

(2)

9. 2017.Q5(a)(b)

(a)

The Journal

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

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

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

	$	$	
Draft net profit for 2016		7 700	
Adjustments: Discounts allowed omitted (i)	(3 400)		0.5
Sales overstated (ii)	(450)		0.5
Purchases overstated (iii)	270		0.5
Returns inwards wrongly debited (iv)	440		0.5
Returns outwards omitted (iv)	440	(2 700)	0.5
Adjusted net profit for 2016		5 000	0.5
Retained profits as at 1 January 2016		10 000	0.5
Retained profits as at 31 December 2016		**15 000**	0.5
			(4)

10. 2018.Q8(A)

(a) The Journal

		Dr $	Cr $	
(i)	Retained profits **(Profit and loss / P/L ×)**	9 700		0.5
	Trade receivables		9 700	0.5
(ii)	Retained profits ($294 000 / 0.98 - $9 700) x 3% - ($294 000 / 0.98) x 2%	2 709		0.5
	Allowance for doubtful debts **(Trade receivables ×)**		2 709	0.5
(iii)	Retained profits	32 000		0.5
	Accrued expenses **(Accrued staff training expense ×)**		32 000	0.5
(iv)	Prepaid expenses **(Prepaid management fees✓) (Prepayments×)**	7 040		0.5
	Suspense	14 080		0.5
	Cash at bank		7 040	0.5
	Retained profits		14 080	0.5
(v)	Retained profits – Sales	50 000		0.5
	Accumulated depreciation – motor vehicles ($88 560 **(0.5)**+ $12 288 **(0.5)**)	100 848		1
	Retained profits – loss on disposal	11 440		0.5
	Motor vehicles		150 000	0.5
	Retained profits – depreciation		12 288	0.5
	OR			
(v)	Retained profits ($50 000 + $11 440 **(0.5)** - $12 288 **(0.5)**)	49 152		1.5
	Accumulated depreciation – motor vehicles	100 848		1
	Motor vehicles		150 000	0.5
				(5)

(b)

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

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

Workings:

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

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

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

Marking for improper format in the statement of financial position

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

11. 2019.Q8

(a)

The Journal 日記簿

		Dr 借記 $	Cr 貸記 $	
(i)	Discounts allowed 銷貨折扣	175		0.5
	(Sales discount✓)			
	Discounts received 購貨折扣	715		0.5
	Suspense 暫記		890	0.5
(ii)	**Suspense 暫記**	840		0.5
	Purchases 購貨		840	0.5
(iii)	**Suspense 暫記**	430		0.5
	Salaries 薪金		430	0.5
(iv)	**Sales 銷貨**	7 400		0.5
	Accumulated depreciation 累積折舊	6 500		0.5
	(Allowance for depreciation 累計折舊 / 折舊準備×)			
	Loss on disposal 變賣損失	2 400		0.5
	Office equipment		16 300	0.5
(v)	**Returns outwards 購貨退出**	1 200		0.5
	購貨 Purchases	2 100		0.5
	Suspense 暫記		3 300	0.5
(vi)	**Share application 股份認購**	280 000		0.5
	(Share applicants 股份申請人 / 股票×)			
	Ordinary share capital 普通股股本		200 000	0.5
	Cash at bank 銀行存款		80 000	0.5
	(Bank / Cash 現金✓ 銀行×)			
(vii)	Loan to director 貸款予董事	35 000		0.5
	(6% Loan / 貸款 / 6%借貸 × - 沒有指明 to 或 from)			
	Trade payables 應付貨款		35,000	0.5
	(Account payables 應付帳款 / Trade creditors 債權人✓)			
	Interest receivable 應收利息 ($35,000 x 6% x 3/12)	525		0.5
	(Accrued interest income 應計利息收益✓)			
	Interest income 利息收益		525	0.5
	(Interest revenue✓) 利息收入×			

(a)

The Journal 日記簿

		Dr 借記 $	Cr 貸記 $	
(viii)	**Trade receivable 應收貨款**	2 360		0.5
	Sales 銷貨		2 360	0.5
(ix)	Rental deposit 租金按金 / Rent deposit 租賃按金	17 000		0.5
	Cash at bank 銀行存款		17 000	0.5
	(Bank / Cash 現金✓ 銀行×)			
				(13)

Alternative answer to item (iv)

(a)

The Journal 日記簿

		Dr 借記 $	Cr 貸記 $	
(iv)	**Sales 銷貨**	7 400		0.5
	Cash at bank 銀行存款		7 400	
	Accumulated depreciation 累積折舊	6 500		0.5
	Disposal: office equipment 變賣：設備		6 500	
	Cash at bank 銀行存款	7 400		
	Disposal: office equipment 變賣：設備		7 400	
	Loss on disposal 變賣損失	2 400		0.5
	Disposal: office equipment 變賣：設備		2 400	
	Disposal: office equipment 變賣：設備	16 300		
	Office equipment		16 300	0.5

Marking notes:

- **Must use account names given in the questions (Account names bolded)**
- **必須使用題目指定的帳戶名稱（粗體的帳戶名稱）**

(b)

Suspense account 暫記帳

	2018		$	2018		$	
1	Difference as per trial balance 試算表差額		2 920	Discounts allowed 銷貨折扣	(i)	175	0.5
0.5	Purchases 購貨	(ii)	840	Discounts received 購貨折扣	(i)	715	0.5
0.5	Salaries 薪金	(iii)	430	Returns outwards 購貨退出	(v)	1 200	0.5
				Purchases 購貨	(v)	2 100	0.5
			4 190			4 190	

(4)

(c)	(vii)	Error of principle 原則性錯誤	1
	(viii)	Error of complete reversal of entries 顛倒入帳錯誤	1
	(ix)	Error of omission 遺漏錯誤	1
			(3)

12. 2020.Q9(A)

(A)(a) Statement to calculate the bank account balance before updating as at 31 December 2019

		$	$	
Bank statement balance			259 465	0.5
Add:	(2) Uncredited deposits	47 900		0.5
	(3) Bookkeeper's error on recording dishonoured cheque	56 970		1
	(4) Interest expense	1 795	106 665	0.5
			366 130	
Less:	(1) Stale cheque (#418226)	23 615		1
	(1) Unpresented cheque (#471218)	71 620		0.5
	(1) Post-dated cheque (#473006)	9 600	104 835	1
Bank account balance			261 295	1
				(6)

(b) The Journal

		Dr $	Cr $	
(ii)	Sales	3 480		0.5
	Suspense		3 480	1
(iii)	Suspense	1 220		1
	Returns outwards		835	0.5
	Returns inwards		385	0.5
(iv)	Accumulated depreciation - Equipment	15 000		1
	Depreciation - Equipment		15 000	1
(v)	Purchases ($45 000 x 60%)	27 000		0.5
	Trade payables		27 000	1
	Trade receivables	36 000		1
	Sales [$27 000 / (1 - 25%)]		36 000	0.5
(vi)	**Bad debts**	6 255		0.5
	Allowance for doubtful accounts		6 255	2

[($90 000 + **$36 000**) x 1% + ($29 800 x 3%) + ($10 000 + $56 970) x 10% - ($129 800 x 2%)]
($1 260 + $894 + $6 697 - $2 596)

(11)