SECTION A (24 marks)

Answer **ALL** questions in this section.

1. Fancy Limited's financial information for 2018 and 2017 is as follows.

	2018
	$
Sales (cash sales $11 600)	298 200
Cost of sales	210 700
Operating expenses	43 600

<u>Balances at 31 December</u>	**2018**	**2017**
	$	**$**
Non-current assets, net	144 800	145 300
Inventory	153 500	86 400
Trade receivables	95 300	58 200
Current liabilities	125 900	70 400
Ordinary share capital	70 000	70 000
Retained profits	124 800	80 900
5% long-term bank loan	95 000	95 000
Cash at bank	22 100	26 400

REQUIRED:

(a) Calculate (to two decimal places) the following ratios for 2018:

(i) inventory turnover (in times)

(ii) trade receivables turnover (in times)

(iii) total assets turnover (in times)

(iv) gearing ratio

(Total: 8 marks)

2. Joey Company's bank statement showed a credit balance of $300 000 as at 31 December 2018, which did not agree with the balance shown in the cash at bank account on that date. The following were subsequently discovered:

(i) Interest income of $2 400 had been credited by the bank but no entries had been made in the books.

(ii) The cash at bank account included a debit entry of a posted-dated cheque from a credit customer for $3 900.

(iii) A cheque for $6 300, received from a customer, was shown in the debit column of the bank statement and marked as a 'Returned Cheque'.

(iv) An incorrect credit transfer of $5 200 had been made by the bank on 30 December 2018. Joey Company was informed by the bank that an adjustment would be made in January 2019.

(v) A cheque payment of $48 000 to a supplier had been recorded as a refund from the supplier in the books.

(vi) On 31 December 2018, unpresented cheques totalled $61 700 while the deposits made but not yet credited by the bank amounted to $23 100.

REQUIRED:

(a) Update the cash at bank account and prepare a bank reconciliation statement as at 31 December 2018. (6 marks)

(b) Give two reasons why a cheque already deposited would be returned by the bank. (2 marks)

(Total: 8 marks)

3. Dragon Limited manufactures three products: A, B and C. The products' financial information is as follows:

	Product		
	A	**B**	**C**
	$/unit	**$/unit**	**$/unit**
Selling price	365	390	225
Production costs			
Direct materials	80.5	95.0	45.5
Direct labour	60.5	61.0	40.0
Variable manufacturing overheads	24.0	24.5	20.5
Fixed manufacturing overheads	55.0	88.0	33.0
Variable selling and administrative expenses	21.5	21.5	21.5

Dragon Limited has a maximum of 20 000 machine hours available each year. The total fixed manufacturing overheads are $440 000 per year, which are absorbed on the basis of machine hours.

REQUIRED:

(a) Calculate the contribution margin per unit for products A, B and C respectively. (2 marks)

(b) Calculate the number of machine hours required to produce each unit of Products A, B and C respectively. (2 marks)

(c) Suppose the projected demand for products A, B and C in the following year is 4 500 units, 2 500 units and 4 300 units respectively. State the production quantity of each product in the following year which will maximize the total contribution of Dragon Limited at its full capacity. Support your answer with calculations. (4 marks)

(Total: 8 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

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

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

Additional information:

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

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

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

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

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

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

REQUIRED:

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

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

(Total: 13 marks)

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

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

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

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

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

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

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

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

REQUIRED:

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

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

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

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

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

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

(Total: 11 marks)

6. Owen Limited produces electrical appliances. Total production overheads are absorbed based on production quantity.

Sales and cost information for the quarter ended 31 December is given below:

	$	$
Sales		1 800 000
Less: Direct materials	800 000	
Direct labour	250 000	
Production overheads - fixed	190 000	
- variable	156 000	
Administrative expenses - fixed	139 400	
Selling and distribution expenses - fixed	90 000	1 625 400
Net profit		174 600

The company did not keep any inventory as at 31 December 2018.

REQUIRED:

(a) Calculate the following for the quarter ended 31 December 2018:

(i) contribution margin ratio (2 marks)

(ii) the sales amount at which the company will achieve a quarterly profit of $300 000 (3 marks)

During the quarter ended 31 March 2019, the following changes took place:

(i) The selling price was reduced by 5%

(ii) Sales volume increased by 20%

(iii) Production volume increased by 30%

(iv) Fixed production overheads increased to $210 000

(v) Fixed selling and distribution expenses increased by $10 000

(vi) Through bulk purchase, the direct materials unit price decreased by 8%

REQUIRED:

(b) Prepare the income statement for the quarter ended 31 March 2019 using the marginal costing system. (5 marks)

(c) Give one advantage of adopting marginal costing system. (2 marks)

(Total: 12 marks)

SECTION C (20 marks)
Answer **ONE** question in this section.

7. Ron, Ann and Ben had been in partnership for many years sharing profits and losses in the ratio of 2:2:1. The account balances of the partnership as at 31 December 2018 are as follows:

	$
Property, net	1 000 000
Equipment, net	360 000
Motor vans, net	574 000
Inventory	283 000
Trade receivables	240 000
Trade payables	88 000
Capital - Ron	1 160 000
- Ann	798 000
- Ben	698 000
Cash at bank	287 000

On 1 January 2019, Ron retired and Carol was admitted into the partnership with the following arrangements:

(i) The property was to be revalued upwards by $346 000 while the motor vans were to be revalued at $390 000.

(ii) An allowance for doubtful debts of $42 000 was to be made. A bad debt recovery of $2 000 would be collected in early 2019.

(iii) Goodwill was valued at $180 000 but it was not to be maintained in the books. Adjustments for goodwill between partners were to be made in the capital accounts.

(iv) $900 000 of the amount due to Ron would be left as a half-year loan to the partnership, with an annual interest of 10%. The balance was to be paid on his retirement date.

(v) Carol brought in a piece of equipment valued at $50 000 together with additional funds so that her capital account would have a balance of $700 000.

(vi) The profit-sharing ratio of Ann, Ben and Carol is 3:2:1. Ben is entitled to an annual salary of $30 000 and Carol is guaranteed a share of profits of not less than $50 000 per quarter.

REQUIRED:

(a) Prepare the following to record the retirement of Ron and the admission of Carol:

(i) The revaluation account (3 marks)

(ii) The partners' capital accounts in columnar form (6 marks)

(iii) The statement of financial position for the new partnership as at 1 January 2019 (6 marks)

(b) Suppose the new partnership's net profit before interest for the quarter ended 31 March 2019 was $270 000. Prepare the appropriation account for the partnership for the quarter ended 31 March 2019. (3 marks)

(c) Give two reasons why a goodwill account is not maintained in the books of a partnership. (2 marks)

(Total: 20 marks)

8. 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)

END OF PAPER