

SKH Leung Kwai Yee Secondary School
Final Exam 2008/09
Form 4
Principles of Accounts

Date : 23.6.2009

Time : 9 : 00am – 11 : 30am

Time allowed : 2.5 hours

This paper must be answered in English.

Full Marks: 100

Instruction:

1. Answer **ALL** questions. **THREE** from Section A (42%), and **TWO** from Section B (58%).
2. Write your answers on the answer book provided.
3. Show your workings.

Setter : WHF

Section A

Answer **ALL** questions from this section. Each question carries 14 marks. Write your answers on the answer sheets provided.

Question 1

Below is an extract from the balance sheet of LKY Company as at 1 January 2008:

	\$
Motor van, at cost	68,000
Less: Provision for depreciation	<u>32,000</u>
	<u>36,000</u>

During the year 2008, the following transactions took place:

- (i) An old van (A) which was bought at a cost of \$4,000 on 2006 had a major breakdown in early 2008 and was disposed for \$1,800 on 1 February 2008.
- (ii) A new van (X) was bought at a price of \$6,980 on 1 April 2008. A lifting machine costing \$625 was then installed on the van.
- (iii) An old van (B) was traded-in for a new van (Y) which had a cost of \$5,500 on 1 August 2008. The trade-in value for van B was agreed at \$2,000 and the balance was settled by cheque. Van B was bought at a cost of \$5,000 on 2005.

The company provides depreciation on its motor vehicles at a rate of 30% per annum using the reducing balance method. A full year's depreciation was made in the year of acquisition and none in the year of disposal irrespective the date.

You are required to:

Prepare the following accounts for the year ended 31 December 2008:

- (a) Motor vehicles; (4 marks)
- (b) Provision for depreciation on motor vehicles; and (6 marks)
- (c) Disposal of motor vehicles. (4 marks)

Question 2

Peter prepares his accounts to 31 December each year. The following occurred in respect of his debtors:

2007

The debtor balances at the end of the year (**before** bad debts written off) totaled \$163,375. Peter decided to write off the following debts:

Smith	\$8,450
Mary	\$4,300

This was Peter's first year of trading, he decided to make a provision for doubtful debts on 4% of the net debtors and provision for discount allowed on 2% of the remaining debtors.

2008

The end of year debtor balance was \$96,000 **after** the following debtor balance had been written off on 1 February 2008.

Edmond	\$700
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On 1 November 2008, a cheque for \$4,300 was received from Mary in respect of the debt written off in 2007. On 28 December 2008, Peter received a cheque from Edmond for \$700 covering the debt. He decided to adjust the provision for doubtful debts to 5% of debtors. Provision for discount allowed was maintained at the same rate.

You are required to:

Prepare the following accounts for the years ended 31 December 2007 and 2008:

- | | |
|--|-------------|
| (a) bad debts; | (2.5 marks) |
| (b) bad debts recovered; | (1 mark) |
| (c) provision for doubtful debts; | (4.5 marks) |
| (d) provision for discounts allowed; and | (4.5 marks) |
| (e) Edmond. | (1.5 marks) |

Question 3

On September 2008, the accountant of O-Kay Ltd. received the following monthly summaries from his clerk:

	\$
Sales ledger control account balance at 1 September 2008	3,150
Total sales	54,320
Cash sales	1,520
Returns inwards	3,280
Discounts allowed	2,150
Bad debts written off	580
Dishonoured cheques	2,240
Allowance to trade debtors on goods damaged in transit	1,805
Balance in the sales ledger to set off against balances in the purchases ledger	1,935

You are required to:

- (a) Write up the sales ledger control account for the month of September 2008 based on the information provided by the clerk. (5 marks)

After recording all the above information in the sales ledger control account, the accountant found that the balance did not agree with the total balance of the sales ledger.

Upon further investigation, the following errors were revealed:

- (1) The opening balance of the debtors' control account should have been \$3,510.
- (2) The sales day book was undercast by \$290.
- (3) A debit balance of \$350 on one debtor's account had been included in the debtor's schedule as a credit balance.
- (4) A bad debt recovery of \$100 had been correctly recorded in the debtor's account, but no entries had been made in the control account.
- (5) A sale of \$850 had been omitted from the sales day book.
- (6) A cash discount of \$60 to a debtor had been completely omitted from the accounting records.

You are required to:

- (b) Adjust the sales ledger control account to correct the balance at 30 September 2008. (6 marks)
- (c) Prepare a statement to ascertain the total balance of the sales ledger before corrections. (3 marks)

Section B

Answer **ALL** questions from this section. Each question carries 29 marks. Write your answers on the answer sheets provided.

Question 4

The balance sheet of the Lap Tak Co. as at 31 December 2008 was as follows:

Lap Tak Co.					
Balance Sheet as at 31 December 2008					
	\$	\$	\$		\$
<u>Fixed Assets</u>	Cost	Accum. Depre.	NBV	<u>Capital</u>	
Furniture and Fixtures	22,000	8,000	14,000	Balance as at 1 Jan 08	23,500
Motor vehicles	12,000	6,000	6,000	Add: Net Profit	8,400
	34,000	14,000	20,000		31,900
<u>Current Assets</u>				Less: Drawings	3,700
Stock		7,000			28,200
Debtors		4,000		<u>Current Liabilities</u>	
Prepayments		2,000		Creditors	8,800
Bank		3,400	16,400		
Suspense account			600		
			37,000		37,000

After reviewing the accounts, the following information was revealed.

- (i) Sales of \$604 to C. Wong had been charged to his account as \$640.
- (ii) A cheque of \$800 received from a debtor, L. Lau, was omitted from the books.
- (iii) Discounts allowed of \$340 to Mr. Yu was posted to the wrong side of the discounts account.
- (iv) The returns inwards journal had been undercast by \$210.
- (v) Sales of \$250 to K. Yeung had been debited in error to F. Yeung's account as \$504.
- (vi) Private insurance of the owner of \$98 had been paid and recorded as the insurance of the firm.
- (vii) The prepayment of \$2,000 should have been an accrual.
- (viii) The sale proceeds of a motor vehicle had been credited to the sales account and debited to the bank account for \$3,000. The cost and accumulated depreciation of the motor vehicle at the date of disposal were \$5,000 and \$1,500 respectively. The company had provided depreciation for 2008 at the rate of 10% on the cost of this motor vehicle.

Required:

- (a) prepare the necessary journal entries to correct the above errors (Narrations are not required.); (12 marks)
- (b) items (ii) and (vi) are errors not affecting trial balance agreement. What do these errors call? (2 marks)

- (c) prepare the suspense account; (2.5 marks)
- (c) prepare a statement calculating the revised net profit for the year ended 31 December 2008; (4.5 marks)
- (d) prepare a balance sheet (in vertical format) after all necessary adjustments had been made. (8 marks)

Question 5

The following is a summary of the receipts and payments of Fei Fei Dance Club for the year ended 31 December 2008:

	\$		\$
Bank balance b/d	67,460	Bar creditors	27,500
Sale of audio equipment	4,260	Bar operating expenses	10,610
Subscriptions	217,800	Utilities expenses	19,860
Interest on loan	3,200	Rent and rates	125,000
Proceeds from annual dance party	15,000	Wages and salaries	54,300
Bar debtors	46,490	Loan to Lily Dance Club (repayable in August 2009)	40,000
		Purchases of audio equipment	28,800
		Expenses of annual dance party	9,120
		Donations – charity	2,000
		Bank balance c/d	37,020
	354,210		354,210

Additional information:

- (i) A bank statement for December 2008 was received by the club. An examination of the club's bank account and the bank statement disclosed the following:
- (1) Direct deposits of \$6,000 for subscriptions had been lodged by members.
 - (2) An autopay was made by the bank for utilities expenses of \$420.
 - (3) Cheques issued amounting to \$2,930 had not been presented to the bank for payment. Among these cheques was one for \$223 drawn nine months ago for the payment of bar purchases. The club decided to cancel the cheque on 31 December 2008.
 - (4) Lodgement of \$4,260 from the sale of audio equipment had not yet been recorded by the bank.
- (ii) Some of the club's balances as at 31 December were as follows:

	2007	2008
	\$	\$
Bar stock	3,260	4,547
Subscriptions in arrears	17,820	14,580
Subscriptions in advance	34,950	27,320
Audio equipment, at cost	300,000	?
Accumulated depreciation – audio equipment	209,000	?
Bar debtors	4,780	4,920
Bar creditors	3,660	2,544
Wages and salaries prepaid	7,000	5,000
Bar operating expenses owing	2,200	2,830
Deposit paid for annual dance party	1,800	-
Accumulated fund	152,310	?

- (iii) One-tenth of the wages and salaries was to be allocated to the bar.
- (iv) Audio equipment sold on 1 January 2008 had a cost of \$50,000 and a net book value of \$9,000. Additional audio equipment was purchased on 1 May 2008. It is the club's policy to depreciate audio equipment at 40% per annum using the reducing-balance method on a pro rata basis.

Required:

- (a) Prepare a bank reconciliation statement as at 31 December 2008 commencing with the bank balance of \$37,020 and ending with the balance as per bank statement. (3 marks)
- (b) Prepare the bar trading account for the year ended 31 December 2008. (6 marks)
- (c) Prepare the income and expenditure account for the year ended 31 December 2008. (11 marks)
- (d) Prepare the balance sheet as at 31 December 2008. (9 marks)

END OF PAPER

SKH Leung Kwai Yee Secondary School

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Form 4

Principles of Accounts

Suggested Answers:

Question 1

(a)

Motor van							
2008			\$	2008			\$
0.5	1 Jan	Bal b/d	68,000	1 Feb	Disposal	4,000	0.5
1	1 Apr	Bank (6,980 + 625)	7,605	1 Aug	Disposal	5,000	0.5
0.5	1 Aug	Disposal – Trade in	2,000	31 Dec	Bal c/d	72,105	0.5
0.5	1 Aug	Bank	3,500				
			<u>81,105</u>			<u>81,105</u>	

(b)

Provision for depreciation on motor van							
2008			\$	2008			\$
1.5	1 Feb	Disposal (4,000 – 4,000 × 0.7 ²)	2,040	1 Jan	Bal b/d	32,000	0.5
1.5	1 Aug	Disposal (5,000 – 5,000 × 0.7 ³)	3,285	31 Dec	Profit and loss (72,105 – 32,000 + 2,040 + 3,285) × 30%	13,629	2
0.5	31 Dec	Bal c/d	40,304				
			<u>45,629</u>			<u>45,629</u>	

(c)

Disposal of motor van							
2008			\$	2008			\$
0.5	1 Feb	Motor van	4,000	1 Feb	Provision for depreciation	2,040	0.5
				1 Feb	Bank	1,800	0.5
				1 Feb	Loss on disposal / Profit and loss	160	0.5
			<u>4,000</u>			<u>4,000</u>	
0.5	1 Aug	Motor van	5,000	1 Aug	Provision for depreciation	3,285	0.5
0.5	1 Aug	Profit on disposal / Profit and loss	285	1 Aug	Motor van – Trade in	2,000	0.5
			<u>5,285</u>			<u>5,285</u>	

Question 2

(a)

Bad debts						
2007			\$	2007	\$	
0.5	31 Dec	Smith	8,450	31 Dec	Profit and loss	12,750 0.5
0.5	31 Dec	Mary	4,300			
			<u>12,750</u>			<u>12,750</u>
2008				2008		
0.5	1 Feb	Edmond	700	28 Dec	Edmond	700 0.5

(b)

Bad debts recovered						
2008			\$	2008	\$	
0.5	31 Dec	Profit and loss	4,300	1 Nov	Mary	4,300 0.5

(c)

Provision for doubtful debts						
2007			\$	2007	\$	
0.5	31 Dec	Bal c/d	6,025	31 Dec	Profit and loss	6,025 1.5
					(\$163,375 – 8,450 – 4,300) × 4%	
2008				2008		
1.5	31 Dec	Profit and loss	1,225	1 Jan	Bal b/d	6,025 0.5
		(\$6,025 – 96,000 × 5%)				
0.5	31 Dec	Bal c/d	4,800			
			<u>6,025</u>			<u>6,025</u>

(d)

Provision for discounts allowed						
2007			\$	2007	\$	
0.5	31 Dec	Bal c/d	2,952	31 Dec	Profit and loss	2,952 1.5
					(\$163,375 – 8,450 – 4,300 – 6,025) × 2%	
2008				2008		
1.5	31 Dec	Profit and loss	1,128	1 Jan	Bal b/d	2,952 0.5
		[\$2,952 – (96,000 – 4,800) × 2%]				
0.5	31 Dec	Bal c/d	1,824			
			<u>2,952</u>			<u>2,952</u>

(e)

Edmond						
2008			\$	2008	\$	
	1 Feb	Bal b/f	700	1 Feb	Bad debts	700 0.5
0.5	28 Dec	Bad debts	700	28 Dec	Bank	700 0.5
			<u>1,400</u>			<u>1,400</u>

Question 3

(a)

Sales ledger control					
	\$		\$		
Bal b/d	3,150	0.5	Returns inwards	3,280	0.5
Credit sales (54,320 – 1,520)	52,800	1	Discounts allowed	2,150	0.5
Dishonoured cheque	2,240	0.5	Bad debts	580	0.5
			Allowance to trade debtors	1,805	0.5
			PLC – set off	1,935	0.5
			Bal c/d	48,440	0.5
	<u>58,190</u>			<u>58,190</u>	

(b)

Sales ledger control					
	\$		\$		
Bal b/d	48,440		Bank	100	0.5
Opening balance understated	360	1	Discounts allowed omitted	60	1
Sales day book undercast	290	1	Bal c/d	49,880	1
Bad debts recovery	100	0.5			
Sales omitted	850	1			
	<u>50,040</u>			<u>50,040</u>	

(c)

O-Kay Ltd				
Statement to ascertain the total balance of the sales ledger before corrections				
		\$	\$	
Total balance of the sales ledger before corrections			48,390	1
Add Debit balance wrongly treated as credit balance	700			0.5
Sales omitted	850	1,550		0.5
		<u>49,940</u>		
Less Discounts allowed omitted			60	0.5
Total balance of the sales ledger after corrections			<u>49,880</u>	0.5

Question 4

(a)

Journal		Dr	Cr
		\$	\$
(i)	Suspense (\$640 – 604)	36	0.5
	C. Wong		36 0.5
(ii)	Bank	800	0.5
	L. Lau		800 0.5
(iii)	Discounts allowed / Profit and loss (340 × 2)	680	1
	Suspense		680 0.5
(iv)	Returns inwards / Profit and loss	210	0.5
	Suspense		210 0.5
(v)	K. Yeung	250	0.5
	Suspense	254	0.5
	F. Yeung		504 0.5
(vi)	Drawings	98	0.5
	Insurance / Profit and loss		98 0.5
(vii)	Profit and loss	4,000	1
	Prepayment		2,000 0.5
	Accrual		2,000 0.5
(viii)	Accumulated depreciation	1,500	0.5
	Sales	3,000	0.5
	Loss on disposal	500	0.5
	Motor vehicles		5,000 0.5
	Accumulated depreciation (5,000 × 10%)	500	0.5
	Depreciation expenses / Profit and loss		500 0.5

(ii)

Item (ii) – Error of omission **(1)**Item (vi) – Error of principle **(1)**

(iii)

		Suspense	
		\$	\$
0.5	Balance b/d	600	
0.5	C. Wong (i)	36	Discounts allowed (iii) 680 0.5
0.5	F. Yeung (v)	254	Returns inwards (iv) 210 0.5
		890	890

(iii)

Statement of adjusted profit for the year ended 31 December 2008

	\$	\$	
Net profit per draft accounts		8,400	0.5
Add: (vi) Private insurance	98		0.5
(viii) Overprovision of depreciation on motor vehicle	500	598	0.5
		<u>8,998</u>	
Less: (iii) Discounts allowed posted to the wrong side	680		0.5
(iv) Returns inwards undercast	210		0.5
(vii) Accrual treated as prepayment	4,000		0.5
(viii) Sales proceeds of motor vehicles treated as sales	3,000		0.5
(viii) Loss on disposal	500	8,390	0.5
Adjusted profit		<u>608</u>	0.5

(iv)

Lap Tak Co.

Balance sheet as at 31 December 2008

	\$	\$	\$	
Fixed assets	Cost	Accum. Depre.	NBV	
Furniture and Fixtures	22,000	8,000	14,000	0.5
Motor vehicles	7,000	4,000	3,000	1.5
			<u>17,000</u>	
Current assets				
Stock		7,000		0.5
Debtors (4,000 – 36 – 800 – 504 + 250)		2,910		2
Bank (3,400 + 800)		4,200		0.5
		<u>14,110</u>		
Less: Current liabilities				
Creditors	8,800			0.5
Accruals	2,000	10,800		1
Net current assets			<u>3,310</u>	
			<u>20,310</u>	
Financed by				
Balance as at 1 Jan 08			23,500	0.5
Add: Net Profit			608	0.5
			<u>24,108</u>	
Less: Drawings (3,700 + 98)			3,798	0.5
			<u>20,310</u>	

Question 5

(a)

Bank reconciliation Statement as at 31 December 2008

	\$	\$	
Balance as per receipts and payments account		37,020	
Add: (1) Direct deposit	6,000		0.5
(3) Unpresented cheque (2,930 – 223)	2,707		0.5
(3) Stale cheque	223	8,930	0.5
		<u>45,950</u>	
Less: (2) Autopay for utilities expenses	420		0.5
(4) Lodgement from sale of audio equipment	4,260	4,680	0.5
Balance as per bank statement		<u><u>41,270</u></u>	0.5

(b)

Fei Fei Dance Club

Bar Trading account for the year ended 31 December 2008

	\$	\$	
Bar takings (\$46,490 – 4,780 + 4,920)		46,630	1
Less: Cost of sales			
Opening stock	3,260		0.5
Bar Purchase (\$27,500 – 3,660 + 2,544)	26,384		1
		<u>29,644</u>	
Less: Closing stock	4,547	25,097	0.5
Gross profit		21,533	
Bar operating expenses (\$10,610 – 2,200 + 2,830)	11,240		1
Wages and salaries (\$54,300 + 7,000 – 5,000) / 10	5,630	16,870	1.5
Bar profit		<u><u>4,663</u></u>	0.5

(c)

Fei Fei Dance Club

Income and expenditure account for the year ended 31 December 2008

	\$	\$	
Income			
Subscriptions (217,800 – 17,820 + 14,580 + 34,950 – 27,320)		228,190	2
Annual dance party (15,000 – 9,120 – 1,800)		4,080	1
Interest on loan		3,200	0.5
Bar profit		<u>4,663</u>	0.5
		234,133	
Expenditure			
Loss on disposal of audio equipment (9,000 – 4,260)	4,740		1
Utilities expenses (19,860 + 420)	20,280		1
Rent and rates	125,000		0.5
Wages and salaries (\$54,300 + 7,000 – 5,000) × 9/10	50,670		1
Donations – charity	2,000		0.5
Depreciation – audio equipment (300,000 – 209,000 – 9,000) ×	40,480	243,170	2.5

40% + 28,800 × 40% × 8/12

Deficit of expenditure over income 9,037 **0.5**

(d)

Fei Fei Dance Club
Balance sheet as at 31 December 2008

	\$	\$	\$
Fixed assets			
Audio equipment (\$300,000 – 50,000 + 28,800)		278,800	1
Less: Provision for depreciation (\$209,000 – 41,000 + 40,480)		208,480	1
		<u>70,320</u>	
Current assets			
Bar stock	4,547		0.5
Bar debtors	4,920		0.5
Loan to Lily Dance Club	40,000		0.5
Prepayments	5,000		0.5
Subscriptions in arrears (\$14,580 – 6,000)	8,580		0.5
Bank (37,020 + 6,000 – 420 + 223)	42,823		1.5
	<u>105,870</u>		
Less: Current Liabilities			
Bar creditors (2,544 + 223)	2,767		0.5
Bar operating expenses owing	2,830		0.5
Subscription in advance	27,320	32,917	0.5
Net current assets		<u>72,953</u>	0.5
		<u>143,273</u>	
Financed by:			
Accumulated fund at 1 January 2008		152,310	0.5
Less: Deficit		<u>(9,037)</u>	0.5
		<u>143,273</u>	