SKH LEUNG KWAI YEE SECONDARY SCHOOL
F.5 FIRST TERM EXAMINATION (2007-2008)

PRINCIPLES OF ACCOUNTS

8:15 am – 10: 45 am (2.5 hours)
This paper must be answered in English

Answer **FIVE** questions:
THREE from Section A (42%), and
TWO from Section B (58%).
All workings must be shown.

Setter : WHF

SECTION A

Answer any **THREE** questions from this section. Each question carries 14 marks.

1. The cash book of Mr Chu's company showed a debit balance of cash at bank of \$186,400 at 31 December 2007.

   On investigation, the followings were discovered:

   (i) A cheque for \$7,800 received from a customer had been recorded twice in the cash book.

   (ii) Overdraft interest of \$2,660 appeared in the bank statement but had not been recorded in the cash book.

   (iii) A cheque for \$8,800 payable to a landlord for December 2007 office rental, had not yet presented to the bank for payment.

   (iv) A cheque for \$19,000 received from a customer had been entered in the cash book on 22 December 2007. It was subsequently dishonoured and returned by the bank, but this was not recorded in the cash book.

   (v) A lodgement of \$36,680 had not yet been credited by the bank.

   (vi) An autopay for insurance of \$6,000 shown in the bank statement had not been entered in the cash book.

   (vii) The bank statement revealed that a customer had made a deposit of \$3,900 directly into the company's bank account.

   (viii) The bank statement showed that an amount of \$20,000 had been credited by the bank by mistake.

   Required:

   (a) Show the necessary adjustments to be made in the cash book on 31 December 2007. (10 marks)

(b) Prepare a bank reconciliation statement as at 31 December 2007, commencing with the adjusted cash book balance. (4 marks)

2. An extract from the balance sheet of Thomas Ltd as at 1 January 2007 is shown below:

	Cost	Provision for depreciation	Net book value
Fixed assets	$	$	$
Machinery	300,000	72,000	228,000
Motor vehicles	206,000	106,000	100,000
	506,000	178,000	328,000

During the year ended 31 December 2007, Thomas Ltd had the following transactions with regard to its fixed assets:

(i) Bought a machine at a cost of $180,000 on 1 March 2007.

(ii) Bought a motor vehicles at a cost of $360,000 on 1 July 2007.

(iii) One of the motor vehicles purchased on 1 April 2004, with an original cost of $120,000, was sold for $15,000 on 1 October 2007.

The financial year for Thomas Ltd ends on 31 December. It's the company policy to depreciate fixed assets on the following basis:

Machinery	20% per annum using the straight-line method
Motor vehicles	30% per annum using the reducing balance method

Depreciation is provided for a full year in the year of purchase, but none is provided in the year of sale.

Required:

Prepare the following ledger accounts for Thomas Ltd for the year ended 31 December 2007:

(a) machinery account (2 marks)

(b) motor vehicles account (2 marks)

(c) provision for depreciation on machinery account (2 marks)

(d) provision for depreciation on motor vehicles account (5 marks)

(v) motor vehicles disposal account (3 marks)

3. The following is a summary of receipts and payments of Tennis Club for the year ended 31 December 2007:

Tennis Club

Receipts and payments account for the year ended 31 December 2007

Receipts	$	Payments	$
Cash and bank balance b/f	280,000	Rent	360,000
Subscriptions	400,000	Bar steward's wages	20,000
Donations	6,900	Telephone and electricity	8,000
Interest Income	2,500	Accountancy fee	2,000
Sales proceeds of office equipment	10,000	Bar purchases	40,000
Bar taking	190,000	Cash and bank balance c/f	459,400
	889,400		889,400

The following information is available:

	As at 31 Dec 2007	As at 31 Dec 2006
	$	$
Subscriptions in arrears	6,000	4,000
Subscriptions in advance	3,000	2,000
Stock of bar supplies	2,400	1,200
Rent Prepaid	20,000	24,000

At 1 January 2007, the club had office equipment of $100,000 at cost and accumulated depreciation as at that date amounted to $40,000. During the year ended 31 December 2007, one piece of office equipment with an original cost of $20,000 and a net book value of $8,000 was sold for $10,000 in cash. There were no other movements of office equipment during the year.

The club provides depreciation for its office equipment at a rate of 20% on cost per annum. No depreciation is charged on fixed assets in the year of disposal.

Required:

(a) Prepare a bar trading account for the year ended 31 December 2007.

(3 marks)

(b) Prepare an income and expenditure account for the year ended 31 December 2007. (11 marks)

4. Daisy is the manager of a retail shop. On the morning of 26 January 2007, she discovered that her shop had been burgled while it was closed during the Chinese New Year holiday. All cash and a computer, which contained all of the accounting data from 1 to 21 January 2007, were lost.

The following balances were extracted from the final accounts for the year ended 31 December 2006:

	$
Creditors	87,206
Bank	512,373
Cash	85,888

The following information was also given for the period 1 to 21 January 2004.

(i) All goods were sold in cash. The total cash sales amounted to $478,600.

(ii) Some cash had been banked except the following:

	$
Cleaning expenses	360
Telephone bill	3,138
Creditors	10,080
Management fee	2,000
Salaries of part-time salesperson	6,200
Drawings	10,000

(iii) Credit purchases for the period amounted to $331,310. On 21 January 2007, the shop had outstanding creditors of $255,770.

(iv) Bank balance as at 26 January 2007 amounted to $712,331.

Required:

(a) Draw up the bank account. (9 marks)

(b) Compute the cash loss. (5 marks)

SECTION B

Answer any **TWO** questions from this section. Each question carries 29 marks.

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) Johnny Chan, the accountant at Marco Company Software Company, prepared a draft financial report for the year ended 31 March 2007. After the trial balance prepared, he discovered that there was an imbalance and a debit shortfall of $55,200. The draft net loss for the year amounted to $6,530.

The following errors were found during the investigation:

(i) Five new computers amounting to $50,000 had been recorded in the purchase account. These computers were used to replace the company's old computers. The computers were depreciated at a rate of 30% per annum. An entire year of depreciation will be charged for the assets in the first year.

(ii) A trade debtor settled his outstanding balance of $4,870 by cheque. However, it had been recorded in the cash book at $4,800.

(iii) Closing stock had been under-counted by 500 units. Each unit costs $5.

(iv) Credit sales of $28,000 had been credited to both the sales account and the trade creditor's account.

(v) The owner issued a company cheque to pay his son's annual insurance fee of $1,230. This amount had been debited to the insurance account and credited to the cash book.

(vi) Salary of a freelancer amounting to $8,000, which was paid by cheque, was omitted from the books.

(vii) A trade debtor had an outstanding amount of $8,750 which had existed for more than six months. After investigation, this amount was cancelled as no job has been done for this trade debtor. No record had been made for the job cancellation.

(viii) A discount allowed of $540 was debited to the returns inwards account.

(ix) Goods returned by a trade debtor amounting to $870 had been recorded only in the returns inwards account.

(x) Cash of $38,000 deposited into the bank had been recorded in the cash book as $38,800.

Required:

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

(b) Prepare a statement to correct the draft net loss for the year ended 31 March 2007. (9 marks)

(c) Draw up a suspense account. (5 marks)

6. Alpha Company is a manufacturer of wristwatches with a financial year that ends on 31 December 2007.

	Dr	Cr
	$	$
Furniture and fittings	430,000	
Plant and machinery	975,000	
Office Equipment	483,000	
Provision for depreciation – Furniture and fittings		123,000
– Plant and machinery		216,700
– Office Equipment		98,200
Purchases of raw materials	1,682,000	
Sales		4,359,000
Discounts allowed	105,200	
Discounts received		20,700
Sales commission	107,200	
Utilities	560,100	
Salaries and wages	420,300	
Plant and rates	234,900	
Printing and Stationery	63,900	
Insurance	74,020	
Repairs to plant and machinery	82,670	
Bad debts	18,300	
Telephone and fax	27,270	
Direct labour	210,000	
Indirect labour	153,000	
Administration expenses	181,000	
Carriage outwards	87,800	
Carriage inwards for raw materials	78,000	
Provision for bad debts		17,800
Capital as at 31 December 2006		1,800,000
Trade debtors	172,800	
Trade creditors		162,000
Cash in hand	132,000	
Cash at bank	310,580	
Stock of raw materials as at 31 December 2006	84,950	
Stock of work-in-progress as at 31 December 2006	69,300	
Stock of finished goods as at 31 December 2006	54,200	
	6,797,490	6,797,490

Additional information as at 31 December 2007 is as follows:

(i) Stock as at 31 December 2007:

	$
Raw materials	102,800
Work-in-progress	108,030
Finished goods	125,000

(ii) Provision for depreciation of:

Furniture and fittings	15% per annum on cost
Plant and machinery	15% per annum on cost
Office Equipment	20% per annum on cost

(iii) Accruals and prepayments as at 31 December 2007 are as follows:

	$
Accrual on sales commission	15,800
Accrual on utilities	7,800
Prepayment for salaries and wages	22,000
Prepayment of rent and rates	10,930

(iv) Allocation of expenses between office and factory is made on the following basis:

	Office	Factory
	%	%
Utilities	25	75
Salaries and wages	40	60
Rent and wages	20	80
Printing and stationery	75	25
Insurance	15	85
Telephone and fax	75	25
Provision for depreciation of furniture and fittings	80	20

(v) Provision for bad debts for the year ended 31 December 2007 remains unchanged.

Required:

(a) Prepare the manufacturing, trading and profit and loss account for the year ended 31 December 2007; (20 marks)

(b) Prepare the balance sheet as at 31 December 2007 of Alpha Company. (9 marks)

7. Lau and Chun were in partnership sharing profits and losses in the ratio 1:2 respectively. The balance sheet as at 31 December 2006 was as follows:

Balance sheet as at 31 December 2006

	$	$			
Fixed Assets			Capital Accounts		
Buildings,net book value		306,000	Lau		162000
Equipment, net book value		59,400	Chun		288,000
					450,000
		365,400	Currents Accounts		
			Lau	2,520	
Current Assets			Chun	1,800	4,320
Stock	16,200				454,320
Debtors	36,360		Current Liabilities		
Bank	51,120	103,680	Creditors		14,760
		469,080			469,080

Lau retired on 30 April 2007 on the following terms:

(i) He was to be paid the amount of his capital and current account balances at 31 December 2006, together with his share of profit and loss for the 4 months ending 30 April 2007 and his share of goodwill.

(ii) Goodwill was calculated to have a value of $135,000. No goodwill account was to remain in the partnership books.

(iii) It was agreed that Lau should be repaid in four equal instalments, the first payment being made on 1 May 2007. The balance was to be left temporarily in the partnership as a loan.

After all the nominal accounts had been balanced off, the following position was arrived at on 30 April 2007.

Assets	$
Buildings, net book value	299,880
Equipment, net book value	62,640
(including additions of $7,200)	
Bank	60,660
Stock	21,600
Debtors	44,460
	489,240
Liabilities	
Creditors	17,640

There were no entries to the capital accounts during the four months. However, the following drawings had been made:

	$
Lau	36,000
Chun	61,200

Kwok was admitted as a new partner on 1 May 2007. He brought in $92,000 as his capital, and additional cash for his share of goodwill. The new profit-sharing ratio was: Chun, four-fifths; and Kwok, one-fifth.

Required:

(a) Calculate the profit of the partnership for the period from 1 January 2007 to 30 April 2007. (4 marks)

(b) Prepare the partners' capital and current accounts to reflect the above arrangements. (16 marks)

(c) Draw up the balance sheet of the new partnership as at 1 May 2007. (9 marks)

END OF PAPER