

2008-CE
P ACCT



HONG KONG CERTIFICATE OF EDUCATION MOCK EXAMINATION 2008

PRINCIPLES OF ACCOUNTS

by Derek Chow

Time allowed: 2½ hours

This paper must be answered in English

Instruction:

1. Answer **FIVE** questions: **THREE** from Section A (42%), and **TWO** from Section B (58%).
2. Two Answer books are provided. Put your answer for Section A in the CE(F) answer book and answers for Section B in the CE(B) answer book. The two answer books will be collected separately.
3. Show your workings.

© 遵理學校 保留版權

Beacon College

All Rights Reserved

Section A

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

1.

(A) Explain the following accounting concepts and illustrate each with an example.

a) Money measurement

b) Materiality

(6 marks)

(B) For each of the independent situations described below, list the accounting principle or concept that has been violated and given your explanation:

a) Peter is the owner of Peter's Trading Company. During the year, Peter withdrew \$60,000 from the company and placed into a fixed deposit with a bank for a period of 12 months in Peter's name. At 31 December 2008, Peter accrued \$600 interest income of Peter's Trading Company.

b) On 30 December 2008, ABC Limited received a purchase order from one customer. At the same date, ABC Limited also received a cheque of \$20,000 as deposit of the purchase order. ABC Limited treated this \$20,000 as revenue of 2008.

(8 marks)

2.

Harry Potter, the accountant of a small company, drew up the sales and purchases ledger control accounts on 31 March 2008. But he found that the balances shown below did not agree with the totals of the two ledgers.

	\$
Purchases ledger control account	2,380
Sales ledger control account	4,250

The following errors were found:

- 1) The purchases day book was overcast by \$560.
- 2) A sales invoice had been undercast by \$20.
- 3) Goods bought from Mary valued at \$920 had been recorded as a sale to May in the sales day book.
- 4) No entry had been made to record a contra of an amount owed to Richard of \$1,390 against an amount owed by Richard of \$360.
- 5) The total of the purchases ledger was overstated by \$620.
- 6) Discount allowed to debtors \$50 was omitted in the control account.

Required:

- a) Draw up the sales ledger control account and purchases ledger control account to show their required adjustments. (8 marks)
- b) Prepare statements to calculate the total of the purchases ledger and the total of sales ledger before corrections. (6 marks)

3.

The following trial balance had been extracted from the books of ABC Sports Club as at 31 March 2008:

	Dr (\$)	Cr (\$)
Accumulated fund		10,000
Bank	3,600	
Cash	700	
Short-term investments	4,500	
Sports equipment	4,000	
Furniture and fittings	2,000	
Bar stock	200	
Members' subscription received		2,700
Income from tournament		1,400
Income from social events		2,600
Bar sales		9,200
Bar purchases	4,100	
Bar wages	3,700	
Administration expenses	1,100	
Expenses of social events	800	
Rent and rates	3,200	
Income from investments		400
Creditors		2,800
Purchase of furniture during the year	1,000	
Insurance	200	
	<u>29,100</u>	<u>29,100</u>

Additional information:

- 1) Subscriptions due at 31 March 2008 but not paid \$400.
- 2) Bar stock at 31 March 2008 was \$300.
- 3) Rates prepaid amounted to \$300.
- 4) Depreciation is to be provided:

Sports equipment	\$1,200
Furniture and fittings	\$400

Required:

- a) Prepare a bar trading account for the year ended 31 March 2008. (2.5 marks)
- b) Prepare the income and expenditure account for the year ended 31 March 2008. (5.5 marks)
- c) Prepare a balance sheet as at 31 March 2008. (6 marks)

4.

(A) What do the following two types of ratios measure?

- a) Liquidity ratios
- b) Profitability ratios

(4 marks)

(B) On 31 December 2008, the following balances of UC Company were extracted:

	\$
Share premium	12,500
5% debentures	8,000
Premises	19,450
Motor vehicles (Cost less depreciation \$1,855)	1,035
Bank overdraft	4,959
Stock in trade	18,880
Raw materials	8,050
Plant and machinery (Cost less depreciation \$11,505)	23,945
Trade debtors	9,995
Trade creditors	6,750
Accruals	995
General reserves	9,000
Interim dividend	2,250
Retained profit brought forward	15,202
Cash	745
Ordinary shares of \$1 each	30,000
Provision for bad debts	500

Additional information:

- 1) Retained profit brought forward was \$21,996.
- 2) The directors propose a final dividend of 8% on the issued share capital.

Required:

- a) Prepare the profit and loss appropriation account for the year ended 31 December 2008. (3 marks)
- b) Prepare a statement to calculate the amount of shareholders' fund. (3 marks)
- c) Calculate the following for the business:
 - i) Current ratio (2 marks)
 - ii) Return on shareholders' fund (2 marks)

(Calculations to two decimal places)

Section B

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

5.

Beacon Ltd was incorporated and started its business on 1 January 2008. A summary of the bank statement of the company for the year ended 31 December 2008 is as follows:

Summary of bank statements		
	Paid	Received
	\$	\$
Issue of \$1 ordinary shares		150,000
Issue of 10% debentures		100,000
Purchases of motor cars	85,000	
Trade creditors	193,000	
Trade debtors		170,000
Cash banked		60,000
Wages and salaries	10,000	
Bank interest	500	
Rent and rates	20,500	
Insurance	3,400	
General expenses	1,000	
Receipt from sale of motor car		3,000
	<u>313,400</u>	<u>483,000</u>

Additional information:

- 1) All shares of the company was issued at a premium and fully paid up on 1 January 2008.
- 2) The 10% debentures were issued at par on 1 July 2008.
- 3) Discounts received and allowed were \$2,000 and \$3,000 respectively.

- 4) All cash received from cash sales was banked after paying the following expenses:

	\$
Wages and salaries	1,000
Cash purchases	2,800
General expenses	650

- 5) Motor cars were to be depreciated by 25% on cost. It is the company's policy to provide depreciation for full year in the year of purchase and no allowance on the year of disposal.
- 6) During the year, a motor car was sold for \$3,000, which cost \$10,000.
- 7) Bad debts written off for the year was \$1,000.
- 8) Provision for bad debts was to be maintained at 3% of debtors.
- 9) All goods were sold at a constant margin of 30% on sales.
- 10) At 31 December 2008 the following balances were provided:

	\$
Trade creditors	15,000
Trade debtors	25,000
Rates paid in advance	500
Salaries owing	1,400
Insurance prepaid	2,500
Closing stock	???

Required:

- a) Prepare a trading and profit and loss appropriation account for the year ended 31 December 2008. (19 marks)
- b) Prepare a balance sheet as at 31 December 2008. (10 marks)

6.

The trial balance of ZZ Limited as at 30 April 2008 failed to agree and the difference of \$160 was debited to a suspense account. The draft net profit for the year amounted to \$47,627.

Subsequent checking of the records revealed the following:

- 1) A credit note for \$179 received from supplier had been posted to the wrong side of his account.
- 2) The company has rented additional flat from 1 November 2007 at an annual rental of \$40,000 payable quarterly in advance. The first two payments were made on 1 November 2007 and 1 February 2008 respectively, but in preparing the draft accounts for the year ended 30 April 2008 the bookkeeper mistakenly thought that one of the quarter payments was made in arrears and had raised an accruals account.
- 3) The company has sub-let part of the flat referred to (2) above at a quarterly rental of \$6,000, payable in advance from 1 February 2008. The tenant paid the rental for the first three months on 1 February 2008. The bookkeeper had debited it to the bank account and credited it to the premises account.
- 4) Trade debtors were shown as \$55,210. However, a bad debt of \$610 had not been written off. The existing provision for bad debts, \$1,300 should have been adjusted to 2% of debtors.
- 5) A piece of equipment costing \$12,000 and acquired on 1 May 2007 for use in business had been debited to purchases account. It was the company's policy to depreciate equipment at 10% per annum on cost.
- 6) Items valued at \$1,175 had been completely omitted from the closing stock figure.
- 7) A page of the sales day book was correctly totaled as \$564 but carried forward as \$456.
- 8) The debit side of the returns inwards account had been over-added by \$1,000.
- 9) Audit fee of \$152 has not yet been provided for.

10) Credit purchases of \$1,980 had been correctly debited to the purchases account but had been credited to the supplier's account as \$2,890.

11) The proceeds for the disposal of a plant for \$25,800 had been correctly debited to bank but credited to cash. The plant for disposal had net book value of \$32,400.

Required:

- a) Prepare journal entries (without narrations) to correct the above. (14 marks)
- b) Draw up the suspense account. (4 marks)
- c) Prepare a statement to correct the draft net profit for the year ended 30 April 2008. (11 marks)

7.

Chan, Chun and Wai had been in partnership sharing profits and losses in the ratio of 2:1:1. The balance sheet as at 31 March 2008 was as follows:

<u>Fixed assets</u>	\$	\$	\$
Plant and machinery		316,000	
Less: Accumulated depreciation		147,000	169,000
Office equipment		189,500	
Less: Accumulated depreciation		79,430	110,070
			<u>279,070</u>
<u>Current assets</u>			
Stock		46,780	
Debtors	38,140		
Less: Provision for doubtful debts	1,907	36,233	
		<u>83,013</u>	
Less: <u>Current liabilities</u>			
Creditors	41,560		
Bank overdraft	7,298	48,858	
Net current assets			<u>34,155</u>
			<u>313,225</u>
Financed by:			
<u>Capital</u>			
Chan		90,000	
Chun		80,000	
Wai		70,000	240,000
<u>Current</u>			
Chan		23,628	
Chun		10,782	
Wai		(11,185)	23,225
Loan – Chan			<u>50,000</u>
			<u>313,225</u>

On 31 March 2008, Wai retired and Pei was admitted to the partnership on the following terms:

1) The profit for the year ended 31 March 2008 was to be adjusted for the

following items through the current accounts:

- a) Depreciation on office equipment had been over-provided by \$3,200.
 - b) Stock of \$420 was considered worthless.
 - c) One debtor, who owed \$7,200, was to be written off.
 - d) Interest on capital of 4% has not been provided.
- 2) Goodwill of the old partnership was estimated at \$42,000, but would not be shown in the books.
 - 3) The plant and machinery was to be revalued at 5% above the net book value and office equipment was to be revalued at \$112,000.
 - 4) The balance owing to Wai was to be retained as a loan to partnership, which was to be repaid in five equal annual instalments. The first payment was to be made on 1 October 2008.
 - 5) Pei was to bring in his private car valued at \$45,000 as his capital, and additional cash for his share of goodwill.
 - 6) Chun was to contribute cash so that the capital account balances of Chun and Chan are in the ratio of 1:1.
 - 7) The new profit and loss sharing ratio for Chan, Chun and Pei was 2:2:1.

Required:

- a) Prepare the partners' capital and current accounts. (19 marks)
- b) Prepare the balance sheet of the new partnership as at 1 April 2008. (10 marks)

END OF PAPER