

2009 – CE
PACCT

PRINCIPLES OF ACCOUNTS

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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.



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) Consistency

b) Conservatism

(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) B-4 Company accrued interest expense on the personal bank loan of the owner at year end.

b) A motor car with an original list price of \$45,000 was acquired by B-4 Limited for \$35,000 in a special sale. Since the motor car had a market value of \$60,000 on the date of purchase, B-4 Limited recorded this amount in the fixed asset account.

(8 marks)

2.

On 8 April 20x6, Mickey, the sole trader of a small company was surprised to have a bank overdraft of \$116,602 as indicated by the bank statement at 31 March 20x6 whereas the bank book showed a credit balance of \$56,800. Upon investigation, it was revealed that:

- 1) Cheques for March 20x6 of \$9,640 were not yet presented.
- 2) Cheques received on 31 March 20x6 amounting to \$25,141 were deposited on that date but were not yet credited by the bank.
- 3) A payment of \$3,683 for government rates made under autopay in March had not been recorded in the cash book.
- 4) Overdraft interest of \$1,798 was charged by the bank on 31 March 20x6. No entry had yet been made in the cash book.
- 5) A cheque for \$31,200 received from a debtor was returned by the bank due to insufficient funds. This had not been recorded in the cash book.
- 6) The closing balance in February of \$53,400 (Dr) in the bank book was mistakenly brought down as \$35,400 (Dr).
- 7) A debtor's cheque dated 3 April 20x6 for \$9,380 had been recorded in the cash book but the cheque was still kept in the company's safe.
- 8) A payment by cheque of \$8,120 was wrongly recorded on the debit side of the cash book.

Required:

- a) Write the cash book up to date. (10 marks)
- b) Draw up a bank reconciliation statement as at 31 March 20x6. (4 marks)



3.

The following information was extracted from the trial balance of ABC Ltd after he prepared the trading account for the year ended 31 October 2008:

	Dr (\$)	Cr (\$)
Debtors and Creditors	12,300	21,000
Stock at 31 October 2008	26,800	
Cash	5,700	
Bank	12,000	
Gross profit		86,500
Capital		349,700
Operating expenses	35,600	

Additional information:

- 1) The gross profit ratio of the business is 25%.
- 2) Credit period granted by creditors is 30 days.
- 3) All sales and purchases are on credit.

Required:

- a) Prepare a trading and profit and loss account for the year ended 31 October 2008. (9 marks)
- b) Calculate the following for the business:
 - i) Net profit ratio
 - ii) Stock turnover rate
 - iii) Current ratio
 - iv) Quick ratio
 - v) Debtors payment period

(Calculations to two decimal places) (5 marks)



4.

The following information is extracted from the books of UC Company:

	\$
Stocks at 1 January 2007:	
- Raw materials	18,450
- Work-in-progress	23,600
- Finished goods	17,470
Purchases of raw materials	64,300
Carriage inwards	1,605
Direct labor	65,810
Office expenses	16,920
Rent and rates	2,700
Office lighting	5,760
Depreciation for the year:	
- Machinery	8,300
- General equipment	1,950
Sales	200,600
Factory electricity	5,920

Additional information:

(1) Stocks at 31 December 2007:

Raw materials	\$20,210
Work-in-progress	\$17,390
Finished goods	\$21,485

(2) Rent and rates is to be apportioned: Factory 2/3; Office 1/3.

Required:

Prepare a manufacturing and trading and profit and loss account for the year ended 31 December 2007. (14 marks)



Section B

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

5.

The trial balance of New World Limited as at 31 December 2007 was shown below:

	Dr (\$)	Cr (\$)
Gross profit		420,580
Promotion and publication expenses	186,000	
Rent	23,715	
Water charges	24,040	
Discounts	4,000	5,120
Ordinary shares of \$1 each		245,000
10% \$1 preference shares		40,000
Retained profit		60,000
Share premium		16,000
Inventory	44,000	
Trade debtors and Trade creditors	72,000	39,300
Allowance for bad debts		2,880
Bank	116,125	
5% debentures		43,000
Interim dividend - Ordinary	24,400	
- Preference	1,200	
Land and building	300,000	
General equipment	68,000	
Motor cars	25,000	
Accumulated depreciation - General equipment		13,000
- Motor cars		3,600
	888,480	888,480



Additional information:

- 1) The following provision are to be made:

Director's fees	\$50,000
Audit fees	\$20,000

- 2) The amount owing for promotion and publication expenses was \$3,000.
- 3) Rent of \$500 paid on 15 December 2007 represents the rent of the quarter 2008.
- 4) Prepayment of water charges at 31 December amounted to \$900.
- 5) Depreciation is to be provided on the following basis:

General equipment	20% on cost
Motors cars	25% using reducing balance method

- 6) Allowance for bad debts is to be 6% of the trade debtors.
- 7) The company declared a final dividend of 10% on ordinary shares at 31 December 2007. The dividend should be treated as a current liability in the balance sheet.
- 8) The directors have decided to transfer \$70,000 to general reserve out of profit.
- 9) The authorized share capital consists of 500,000 ordinary shares of \$1 each and 100,000 10% preference shares of \$1 each.

Required:

- a) Prepare a profit and loss account of New World Limited for the year ended 31 December 2007. (12 marks)
- b) Prepare a balance sheet as at 31 December 2007. (17 marks)



6.

Angus, Bong and Carrie were in partnership sharing profit and losses in the ratio of 3:2:2. On 31 March 2007, the balance sheet of the partnership was as follows:

Balance Sheet as at 31 March 2007

	\$	\$	\$
<u>Fixed assets</u>			
Machinery, net			69,200
Motor vehicles, net			87,400
Investment			67,000
			223,600
 <u>Intangible Assets</u>			
Goodwill			20,000
 <u>Current assets</u>			
Stock		50,350	
Debtors		37,200	
Cash in hand		300	
		87,850	
 Less: <u>Current liabilities</u>			
Creditors	30,050		
Bank overdraft	1,790	31,840	
Net current assets			56,010
			299,610
 Financed by:			
<u>Capital</u>			
Angus		100,000	
Bong		90,000	
Carrie		86,000	276,000
<u>Current</u>			
Angus		9,110	
Bong		9,500	
Carrie		5,000	23,610
			299,610



Additional information:

- 1) On 31 March 2007, Carrie decided to retire from the partnership and assets were revalued as follows:

	\$
Goodwill	23,000
Machinery	70,000
Motor vehicles	72,000
Investments	80,000
Stocks	49,000

- 2) It was agreed to provide 5% on doubtful debts in respect of the debtors.
- 3) Motor vehicles valued at \$32,000 were taken over by Carrie.
- 4) Carrie was paid \$50,000 and the balance of her capital account was to be transferred to loan account.
- 5) Angus and Bong introduced additional capital amounting to \$30,000 each. The new profit and loss sharing ratio was 2:1.

You are required to:

Prepare:

- a) the revaluation account for the partnership; (6 marks)
- b) the partners' capital accounts in columnar form; and (11 marks)
- c) the balance sheet of the new partnership as at 31 March 2007. (12 marks)



7.

Mr. Leung is the proprietor of Leung's Company, has just drawn up the trial balance as at 31 March 2007. However, it was found that the trial balance did not agree and the difference was entered in suspense account. The drafted net profit for the year ended amounted to \$228,250.

After investigation, the following errors and omissions were revealed:

- 1) The returns outwards day book was overcast by \$750.
- 2) An invoice \$2,800 of sales on credit to William Hung was entered to personal account only. No entry was made on the general ledger.
- 3) Since the warehouse of company was too small to keep all the stock, Mr. Leung used his private house for the storage of company's stock which occupied one-third area of Mr. Leung's house for the whole year. The monthly rent of Mr. Leung's house was \$18,000. As no extra rental expense has been paid, Mr. Leung did not record any transaction in company's books.
- 4) The bank balance of \$62,600 has been wrongly stated as an overdraft in trial balance.
- 5) On 1 April 2006, Leung's Company acquired an office equipment for \$60,000 by cash. This transaction was wrongly treated as cash purchase. It is the company's policy to depreciate all fixed assets at 10% by reducing balance basis.
- 6) The physical stocktaking was taken place on 31 March, however, it was found that one stock-count sheet was understated by \$630.
- 7) A cheque for \$23,240 dated 5 April 2007 has been received from a debtor on 28 March. This cheque was then kept by the cashier until 5 April. However, this transaction has been wrongly entered to relevant accounts by the book-keeper.



- 8) A trade discount of \$550 given to a debtor has been entered to the discount allowed account only. On the other hand, the discount received of \$1,810 has been put to the wrong side of trial balance.

You are required to prepare:

- a) journal entries to correct the above errors (narration is not required). (15 marks)
- b) the suspense account, and (6 marks)
- c) a statement for the revised net profit. (8 marks)