Paper 2A

Accounting Module

SECTION A

QUESTION 1 **Marks**

			Marks
(a)	i.	Business entity	1
	ii.	Timeliness	1
	iii.	Going concern	1
	iv.	Money measurement	1
	v.	Realisation	1
			(5)
(b)		Materiality	1
	-	Materiality refers to the impact of an item's nature and size on the company's financial operations. / Information is material if omitting it or mis-stating it could influence decisions that users make on the basis of the reported financial information.	1
	-	The calculator is insignificant in value in view of a multinational corporation's size of operations, and hence it should be recorded as an expense in the year of purchase.	1
			(3)
			8 marks

QUESTION 2 **Marks**

(a) Number of units remaining unsold = (400 + 500 + 1500) – (250 + 1600) = 550 units
Unit average cost = $(17 200 + 20 000 + 54 000) / 2400units = $38/unit
Value of closing inventory = $38 x 550 units = **$20 900** (2)

(b)

Tommy Company
Income statement for the month ended 31 March 2017

		$	$	
Sales (250 x $45 + 1600 x $39)			73 650	0.5
Less:	Cost of goods sold			
	Opening inventory	17 200		0.5
	Purchases	74 000		0.5
		91 200		
Less: Closing inventory		**20 900**	70 300	0.5
Gross profit			3 350	
Less:	Operating expenses		14 350	0.5
Net loss			11 000	0.5
				(3)

(c)	-	the gross profit for the month of March 2017 will decrease by $1650 ($3 x 550)/decrease to $1700	2
	-	because of applying the rule of lower of cost and net realisable value	1
			(3)
			8 marks

QUESTION 3 | **Marks**

			Marks
(a)	2015 Depreciation expense = \$432 000 x 2400/8000 = \$129 600		1
	2016 Depreciation expense = \$432 000 x (8000 – 1800 – 2300 – 2400)/8000 = \$81 000		1
			(2)
(b)	(i)	\$400 000	0.5
	(ii)	[(\$300 000 - \$180 000) / (600 000-360 000)] x 480 000 = \$0.5 x 480 000 = \$240 000	1
	(iii)	Variable cost per unit = (\$125 000 - \$77 000)/(600 000 – 360 000)units = \$0.2 per unit Fixed cost = \$125 000 – (\$0.2 x 600 000 units) = \$5000 Total cost = \$5000 + (\$0.2 x 420 000units) = \$89 000	1.5
			(3)
(c)	mixed cost/semi-variable cost/semi-fixed cost		(1)
(d)	- Type P		1
	- Type P is a fixed cost. Given that KM Company has sufficient production capacity, Type P would not change no matter whether the special order is accepted or not.		1
			(2)
			8 marks

SECTION B

QUESTION 4 | **Marks**

Cash at bank

Marks			\$			\$	Marks
0.5	Balance b/d		105 468	Electricity	(ii)	900	0.5
1	K & K Limited	(i)	15 236	Bank charges	(iv)	794	0.5
0.5	Dividend income	(v)	3 160	Trade receivables	(vi)	11 630	1
1	Rent and rates	(vii)	180	Term deposit	(ix)	60 000	0.5
				Interest income	(ix)	1 200	0.5
				Balance c/d		**49 520**	
			124 044			124 044	
							(6)

Bank reconciliation statement as at 31 December 2016

			\$	\$	Marks
Adjusted balance as per cash at bank account				**49 520**	0.5
Add:	Unpresented cheques	(i)			
	-450998		35 060		0.5
	-482118		7 850	42 910	0.5
				92 430	
Less:	Incorrect debit made by bank	(iii)	8 755		1
	Uncredited deposits	(viii)	81 425	90 180	1
Balance as per bank statement				2 250	0.5
					(4)
					10 marks

QUESTION 5 **Marks**

(a) The Journal

		Dr	Cr	
		$	$	
(i)	Discounts allowed	3 400		0.5
	Trade receivables		3 400	0.5
(ii)	Cash	28 050		0.5
	Sales	450		0.5
	Trade receivables - Pearl Limited		28 500	0.5
(iii)	Trade payables	270		0.5
	Purchases		270	0.5
(iv)	Suspense	880		0.5
	Returns inwards		440	0.5
	Returns outwards		440	0.5
				(5)

(b) Statement to calculate the retained profits as at 31 December 2016

		$	$	
Draft net profit for 2016			7 700	
Adjustments:	Discounts allowed omitted (i)	(3 400)		0.5
	Sales overstated (ii)	(450)		0.5
	Purchases overstated (iii)	270		0.5
	Returns inwards wrongly debited (iv)	440		0.5
	Returns outwards omitted (iv)	440	(2 700)	0.5
Adjusted net profit for 2016			5 000	0.5
Retained profits as at 1 January 2016			10 000	0.5
Retained profits as at 31 December 2016			**15 000**	0.5
				(4)

(c) Gearing ratio:

$$= \frac{320\,000 + 760\,000}{320\,000 + (1\,305\,000 + 760\,000 + \mathbf{15\,000})} \times 100\%$$

$$= 45\%$$ (2)

(d)
- The dividend per share for preference shares is usually fixed, while it varies for ordinary shares. Max. 2
- The preference shareholders usually have the right to receive dividends prior to the ordinary shareholders.

(1 mark for each difference, maximum 2 marks)

(2)

13 mark

QUESTION 6 **Marks**

				Marks
(a)	Selling price: ($2 400 000/9600) = $250 per unit			1
	Variable cost of goods sold: ($300 000 + $600 000)/(2400+9600) = $75 per unit			1
	Variable selling and administrative overheads: ($240 000/9600) = $25 per unit			1
	Contribution margin: $250 **- $75 - $25** = $150 per unit			1
				(4)
(b)	Total fixed overheads: ($15 000 + $930 000) + $360 000 = $1 305 000			1
	Contribution margin ratio: $150/$250 = 0.6			1
	Breakeven sales: $1 305 000/0.6 = $2 175 000			2
	OR			
	($1 305 000/$150)units x $250= 8700 units x $250= $2 175 000			
				(4)
(c)	(i)	Total direct labour hours: (6 minutes x 5000) + (10 minutes x 7000) = 100 000 minutes		0.5
		Predetermined fixed production overhead absorption rate:		
		M1:	$988 000/100 000 x 6 minutes = $59.28 per unit	0.5
		Super-M:	$988 000/100 000 x 10 minutes = $98.8 per unit	0.5
	(ii)	Total machine hours: (48 minutes x 5000) + (40 minutes x 7000) = 520 000 minutes		0.5
		Predetermined fixed production overhead absorption rate:		
		M1:	$988 000/520 000 x 48 minutes = $91.2 per unit	0.5
		Super-M:	$988 000/520 000 x 40 minutes = $76 per unit	0.5
				(3)
(d)	-	machine hour		1
	-	as the operation is machine-oriented/machine maintenance and depreciation for machinery are the main components of fixed production overheads/total machine hours used is nearly five-fold of total direct labour hours used		1
				(2)

13 marks

SECTION C

QUESTION 7 **M**

(a) (i)

Mark
Income statement for the year ended 31 December 2016

		$	$
Sales	($1 523 800 + $13 700 - $12 100)		1 525 400
Less:	Cost of goods sold		
	Opening inventory	143 000	
	Add: Purchases ($989 170 + $135 000 - $149 700)	974 470	
		1 117 470	
	Less: Closing inventory	15 000	
		1 102 470	
	Less: Destroyed inventory (Balancing figure)	**19 690**	1 082 780
Gross Profit	($1 525 400 - $50 000) x 30%		442 620
Add: Interest income			200
			442 820
Less:	Expenses		
	Staff salaries ($129 000 + $89 400)	218 400	
	Rent and rates ($127 750 - $8000)	119 750	
	Sundry expenses ($42 800 + $2180 - $2440)	42 540	
	Inventory loss	**19 690**	
	Depreciation on motor van ($24 000/0.8) x 20%	6 000	406 380
Net profit			**36 440**

(ii)

Mark
Statement of financial position as at 31 December 2016

	$	$
Non-current Assets		
Motor van, net ($24 000 - $6000)		18 000
2% Term deposit		20 000
		38 000
Current Assets		
Inventory	15 000	
Rental deposit	8 000	
Interest receivable	200	
Trade receivables	13 700	
Cash at bank ($99 180 - $1200)	97 980	134 880
		172 880
Capital		
Balance as at 1 January 2016	88 760	
Add: Capital injection	10 000	
Add: Net profit for the year	**36 440**	
	135 200	
Less: Drawings ($29 500 + $70 000)	(99 500)	35 700
Current Liabilities		
Trade payables	135 000	
Accrued sundry expenses	2 180	137 180
		172 880

QUESTION 7 (Cont'd) **Marks**

			Marks
(b)	-	normal loss is an expected loss arising from normal purchases or production activities	1
	-	abnormal loss is an unexpected loss in the operation of a business	1
	-	the loss caused to Mark's business by the fire is an abnormal loss	1
			(3)
			20 marks

QUESTION 8

(a)

Capital

	2016	Bill	Ben	Tom	2016	Bill	Ben	Tom
		$	$	$		$	$	$
0.5	Goodwill			48 000	Balance b/d	162 000	466 000	
0.5	Loan – Bill	252 500			Cash at bank			240 000
1	Balance c/d		**563 500**	**192 000**	Current	42 000		
					Revaluation (w1)	24 500	73 500	
					Goodwill	24 000	24 000	
		252 500	563 500	240 000		252 500	563 500	240 000

(w1) Gain on revaluation = $248 000 - ($120 000 / 0.8) = $98 000

(b) (i)

Appropriation account for the year ended 31 December 2016

		$
Net loss	$(371 000 + 19 600 + 5050) (w2)	395 650
Add:	Salary to Tom ($2000 x 12)	24 000
		419 650
Share of loss	- Ben (1/2)	**209 825**
	- Tom (1/2)	**209 825**
		419 650

(w2) Depreciation expense under-provided for = [$248 000 – ($120 000/0.8)] x 20% = $19 600
Loan interest expense = $252 500 x 2% = $5050

(b) (ii)

Current

	2016	Ben	Tom	2016	Ben	Tom
		$	$		$	$
0.5	Balance b/d	20 000		Appropriation account – salary		24 000
0.5	Appropriation account – share of loss	**209 825**	**209 825**	Balance c/d	**229 825**	**185 825**
		229 825	209 825		229 825	209 825

(c) Items that would be recorded in the current account:
- Drawings
- Interest on capital
- Interest on drawings
- Interest on loan to partner(s)

(1 mark for each item, max. 2 marks)

QUESTION 8 (Cont'd) **Marks**

(d)

Realisation

		$				$	
0.5	Equipment ($248 000 x 0.8)	198 400	Ben's Capital: Equipment			174 000	0.5
0.5	Trade receivables	70 000	Cash at bank - Trade receivables and inventory			96 000	0.5
0.5	Inventory	98 000	Trade payables - discounts received			1 000	0.5
0.5	Cash at bank- realisation expenses	6 000	Interest payable			5 050	0.5
			Share of realisation loss:				
			Capital - Ben	(1/2)	**48 175**		
			Capital - Tom	(1/2)	**48 175**	96 350	
		372 400				372 400	

(4)

(e)

Capital

	2017	Ben	Tom	2017	Ben	Tom	
		$	$		$	$	
0.5	Current account	**229 825**	**185 825**	Balance b/d	**563 500**	**192 000**	0.5
0.5	Realisation: Equipment	174 000		Cash at bank		42 000	0.5
0.5	Realisation	**48 175**	**48 175**				
0.5	Cash at bank	111 500					
		563 500	234 000		563 500	234 000	

(3)

20 marks

END OF PAPER 2A