**Foreword**

This resource material provides teachers with examples of graded assignments for reference and is by no means exhaustive. Teachers are advised to adapt the materials according to the diverse learning needs of students if deemed necessary.

Graded Assignment: Accounting for Limited Company

Elementary Level - Question Paper

|  |  |
| --- | --- |
| (A) | State the differences between ordinary shares and debentures in terms of:1. nature of capital; and
2. financial burden on the limited company. (2 marks)
 |
| (B) | Below is the trial balance of Alpha Limited as at 31 March 2021: |

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
|  | $ | $ |
| Office equipment  | 2,500,000 |  |
| Accumulated depreciation – office equipment, 1 April 2020 |  | 1,080,000 |
| Inventory, 1 April 2020 | 190,000 |  |
| Allowance for doubtful accounts, 1 April 2020 |  | 50,000 |
| Purchases and Sales | 500,000 | 2,150,000 |
| Administrative, selling and distribution expenses | 415,800 |  |
| Ordinary share dividends | 200,000 |  |
| Debenture interest  | 18,000 |  |
| 4% Debentures |  | 900,000 |
| Ordinary share capital  |  | 3,500,000 |
| Cash at bank | 5,011,200 |  |
| General reserve |  | 80,000 |
| Retained profits, 1 April 2020 |  | 120,000 |
| Trade receivables and Trade payables | 250,000 | 35,000 |
| Share applications |  | 1,170,000 |
|  | 9,085,000 | 9,085,000 |
|  |  |  |

Additional information:

|  |  |
| --- | --- |
| (i) | On 1 March 2021, the company issued 30,000 ordinary shares at $26 each. Applications had been received for 45,000 ordinary shares and it was decided to allot the shares on the basis of two shares for every three shares subscribed. The shares had been allotted on 31 March 2021, but no entries were made for this. The excess application monies would be refunded on 7 April 2021. |
|  |  |
| (ii) | The following administrative expenses were to be paid in April 2021:  |
|  | * Directors’ fees of $120,000
 |
|  | * Audit fees of $30,000
 |
|  |  |
| (iii) | Estimated profits tax amounted to $85,000 had not yet been recorded in the books. |
|  |  |
| (iv) | It is the company’s policy to depreciate its non-current assets on a reducing balance basis at a rate of 15% per annum and to classify the depreciation expenses as administrative expenses.  |
|  |  |
| (v) | The 4% debentures were issued on 1 July 2020 with maturity date on 30 June 2023 and the debenture interest is payable at the end of each quarter. |
|  |   |
| (vi) | On 28 March 2021, there was a fire in the warehouse and inventory costing $30,000 was destroyed. The insurance company agreed to compensate the business for 60% of the inventory destroyed. No entries were made in the books. After the physical inventory count on 31 March 2021, the inventory was valued at $100,000. Part of the closing inventory costing $15,000 was slightly damaged and could only be sold for $3,450 after paying repair fee of $500. Closing inventory had not been adjusted for this. |
| (vii) | On 29 March 2021, one of the customers who had owed the company $40,000 had declared bankruptcy. The company decided to write off the debt but no entries were made in the books. An allowance for doubtful accounts of 5% on trade receivables was to be provided on 31 March 2021. |
|  |  |
| (viii) | On 31 March 2021, the board of directors resolved to transfer $50,000 to general reserve. |
| (ix) | During the year, ordinary share dividends of $200,000 was declared and paid. Final dividend of $2 per share was to be declared in May 2021.  |

**REQUIRED:**

|  |
| --- |
| Prepare for Alpha Limited, |
| (a) | an income statement for the year ended 31 March 2021, showing separately destroyed inventory value, profit before tax and profit after tax. (6 marks)  |
| (b) | a statement to calculate the retained profits as at 31 March 2021. (2 marks) |
| (c) | a statement of financial position as at 31 March 2021. (8 marks)  |

|  |  |
| --- | --- |
|  |  (Total: 18 marks) |
|  |

Graded Assignment: Accounting for Limited Company

Elementary Level – Student Worksheet

1. \*Circle the correct answers in the following table.

|  |
| --- |
| **Differences between ordinary shares and debentures:** |
|  | **Ordinary shares** | **Debentures** |
| *Nature of capital* | (Share / Loan)\* capitalreported under (Equity / Liabilities)\* partin the statement of financial position | (Share / Loan)\* capitalreported under (Equity / Liabilities)\* partin the statement of financial position |
| *Financial burden on the limited company* | (Interest / Dividend)\* at a (fixed / variable)\* rate | (Interest / Dividend)\* at a (fixed / variable)\* rate |

|  |
| --- |
| (B)(a)  |

|  |
| --- |
| Alpha Limited |
| Income statement for the year ended 31 March 2021 |
|  | $ | $ |
| Sales |  |  |
| Less:  | Cost of goods sold  |  |
|  | Opening inventory  |  |
| Inventory destroyed in a fire should be deducted  | Add: PurchasesLess: Destroyed inventory *(item vi)* |  |  |
|  | Less: Closing inventory *(W1)* |   |  |
| Gross profit |  |  |
| Less:  | Expenses |  |  |
|  | Administrative, selling and distribution expenses *(W2)* |  |  |
|  | Inventory loss *(W4)* |  |  |
|  | Debenture interest *(W5)* |  |  |
| Profit before tax |  |  |
| Less: | Profits tax |  |  |
| Profit after tax |  |  |
|  |  |  |
| *W1:* | *The application of lower of cost and net realisable value (NRV):**If NRV > Cost, inventory is valued at cost. No adjustment is required.**If Cost > NRV, inventory is valued at NRV. Inventory value should be written down.* |
|  | *Step 1: Find out the cost and the NRV of the inventory slightly damaged** *Cost = $15,000*
 |
|  | * *NRV = Estimated selling price – Estimated necessary costs to complete and make the sales*
 |
|  |  *= $\_\_\_\_\_\_\_\_\_\_ - $\_\_\_\_\_\_\_\_\_\_ = $\_\_\_\_\_\_\_\_\_\_**Step 2: Compare cost and NRV* |
|  | *As Cost > NRV, inventory is valued at $\_\_\_\_\_\_\_\_\_\_* |
|  | *Step 3: Write down the inventory value**Inventory value would be written down by $\_\_\_\_\_\_\_\_\_\_ – $\_\_\_\_\_\_\_\_\_\_ = $\_\_\_\_\_\_\_\_\_\_**Closing inventory value = $100,000 – $\_\_\_\_\_\_\_\_\_\_ = $\_\_\_\_\_\_\_\_\_\_* |

|  |  |
| --- | --- |
| *W2:* | *Calculation of administrative, selling and distribution expenses*  |
|  |  | *$* |
|  | *As per trial balance* | *415,800* |
|  | *Add:* | *Directors’ fees (item ii)* |  |
|  |  | *Audit fees (item ii)* |  |
|  |  | *Depreciation expenses $(\_\_\_\_\_\_\_\_\_\_ – \_\_\_\_\_\_\_\_\_\_) ×\_\_\_% (item iv)*  |
|  |  | *Bad debts (item vii) (W3)* |  |
|  |  |  |  |
| *W3: Preparation of allowance for doubtful accounts*Uncollectible amount written off on 29 March 2021 |
|  |  |  |

|  |
| --- |
|  Allowance for doubtful accounts |
|  | $ |  | $ |
| Trade receivables *Step 2* |  | Balance b/d *Step 1* | 50,000 |
| Balance c/d *Step 3*$(\_\_\_\_\_\_\_\_\_\_ – \_\_\_\_\_\_\_\_\_\_) ×\_\_\_\_% | Bad debts *Step 4* |  |
|  |  |  |  |

|  |
| --- |
| Steps to prepare an allowance for doubtful accounts |
| Step 1: | State the Balance b/d on credit side of the account as the allowance for doubtful accounts is a contra asset account with a credit balance.  |
| Step 2: | Write off the uncollectible amount from the trade receivables account:*Dr Allowance for doubtful accounts* *Cr Trade receivables* |
|  |
|  |  |
| Step 3: | Calculate the Balance c/d:Balance c/d = Outstanding balance of trade receivables account × 5% [in this question]  |
| Step 4: | The balancing figure would be included in the income statement as bad debts expenses:*Dr Bad debts* *Cr Allowance for doubtful accounts* |
|  |

|  |  |
| --- | --- |
| *W4* | *Item (vi): Inventory costing $30,000 was destroyed in a fire* |
|  |  |
|  | Inventory value destroyed in a fire*(Deduct from purchases)*Amount not covered by insurance (i.e. 40%)*(Income statement: expenses)*Amount covered by insurance (i.e. 60%)*(Current assets: receivables)* *Inventory loss to be included as expenses in the income statement:**$\_\_\_\_\_\_\_\_\_\_\_\_\_ × \_\_\_\_\_% = $\_\_\_\_\_\_\_\_\_\_\_\_\_* |

|  |  |
| --- | --- |
| *W5:* | *Calculation of debenture interest for the year ended 31 March 2021 $* |
|  | *As per trial balance – Debenture interest for 6 months* *1 Jul 2020 – 31 Dec 2020* | *18,000* |
|  | *Add: Accrued interest for 3 months $900,000 × 4% × \_\_\_\_\_\_\_\_\_* |  |
|  | *Reported as Liabilities in the statement of financial position* |  |

*1 Jan 2021 – 31 Mar 2021*

|  |  |
| --- | --- |
| (b) |  |

|  |
| --- |
| Alpha Limited |
| Statement to calculate the retained profits as at 31 March 2021 |
|  | $ | $ |
| Retained profits, 1 April 2020 *(from trial balance)* |  |  |
| Add: Profit after tax (answer from (a)) |  |  |
|  |  |  |
| Less:  | Transfer to general reserve *(item viii)* |  |  |
|  | Ordinary share dividends *(item ix) (declared in current financial period)* |  |  |
|  |  |  |  |  |
| Retained profits, 31 March 2021 |  |  |
|  |

(c)

|  |  |
| --- | --- |
|  | Alpha Limited Statement of financial position as at 31 March 2021 |
|  | $ | $ | $ |
| NBV = Cost – Accumulated depreciation | **ASSETS** |  |  |
|  | **Non-current assets** |  |  |
|  | Office equipment, net *($2,500,000 – \_\_\_\_\_\_\_\_\_\_ – \_\_\_\_\_\_\_\_\_\_)* |  |
|  |  |  |  |
|  | **Current assets** |  |  |
| Write off the uncollectible amount  | Inventory *($100,000 – \_\_\_\_\_\_\_\_\_\_ (W1))* |  |  |
|  | Trade receivables *($250,000 – \_\_\_\_\_\_\_\_\_\_ (item vii))* |  |  |  |
|  | Less:  | Allowance for doubtful accounts $(\_\_\_\_\_\_\_\_\_\_ – \_\_\_\_\_\_\_\_\_\_) ×\_\_\_\_% |  |  |  |
|  |  |  |  |
|  | Insurance compensation receivables (*$\_\_\_\_\_\_\_\_\_\_ ×\_\_\_%) (item vi)* |  |  |
|  | Cash at bank  |  |  |
|  | *Total assets* |  |  |
|  |  |  |  |
|  | **EQUITY AND LIABILITIES**Original share capital + (issue price x newly issued number of share)  |  |  |
|  | **Shareholder’s Equity**  |  |  |
|  | Ordinary share capital [$\_\_\_\_\_\_\_\_\_\_\_ + ($\_\_\_\_\_\_ × *\_\_\_\_\_\_\_\_\_\_\_*)*(item i)*]  |  |
|  | General reserve *$(80,000 + \_\_\_\_\_\_\_\_\_\_ (item viii))* |  |  |
|  | Retained profits *(answer from (b))* |  |  |
|  |  |  |  |  |
|  | **Non-current liabilities** |  |  |
|  | \_\_\_\_\_ Debentures  |  |  |
|  | (number of shares subscribed – number of shares issued) × issue price |  |  |
|  | **Current liabilities** |  |  |
|  | Trade payables  |  |  |
|  | Share applications refundable[(\_\_\_\_\_\_\_\_\_\_\_ - \_\_\_\_\_\_\_\_\_\_\_) × $\_\_\_\_\_\_] *(item i)* |  |
|  | Tax payable *(item iii)* |  |  |
|  | Accrued administrative expenses *$(\_\_\_\_\_\_\_\_ +\_\_\_\_\_\_\_\_) (item ii)* |  |  |
|  | Accrued debenture interest *(W5)* |  |  |
|  | *Total equity and liabilities*  |  |  |
|  |  |  |  |

Graded Assignment: Accounting for Limited Company

Elementary Level – Suggested Solution and Explanatory Notes

1. Differences between ordinary shares and debentures.

|  |  |  |
| --- | --- | --- |
|  | **Ordinary shares** | **Debentures** |
| *Nature of capital* | (Share / Loan) \* capitalreported under (Equity / Liabilities)\* partin the statement of financial position | (Share / Loan)\* capitalreported under (Equity / Liabilities)\* partin the statement of financial position |
| *Financial burden on the limited company* | (Interest / Dividend)\* at a  (fixed / variable)\* rate | (Interest / Dividend)\* at a (fixed / variable)\* rate |

|  |
| --- |
| (B)(a)  |
| Alpha Limited |
| Income statement for the year ended 31 March 2021 |
|  | $ | $ |
| SalesInventory damaged in a fire should be deducted from purchases  |  | 2,150,000 |
| Less:  | Cost of goods sold  |  |
|  | Opening inventory  | 190,000 |  |
|  Add: Purchases  | 500,000 |  |
|  Less: Destroyed inventory *(item vi)* | 30,000 |  |
|  Less: Closing inventory *(W1)* | 87,950 | 572,050 |
| Gross profitInventory value would be written down in the cost of goods sold after applying the “lower of cost and NRV” |  | 1,577,950 |
|  |  |  |
| Less:  | Expenses |  |  |
|  | Administrative, selling and distribution expenses *(W2)* | 779,300 |  |
|  | Inventory loss *(W4)* | 12,000 |  |
|  | Debenture interest *(W5)* | 27,000 | 818,300 |
| Profit before tax |  | 759,650 |
| Less: | Profits tax |  | 85,000 |
| Profit after tax |  | 674,650 |
|  |  |  |

|  |  |
| --- | --- |
| *W1:* | *The application of lower of cost and net realisable value (NRV)**If NRV > Cost, inventory is valued at cost. No adjustment is required.**If Cost > NRV, inventory is valued at NRV. Inventory value should be written down.* |
| *Step 1: Find out the cost and the NRV of the inventory slightly damaged* |
|  | *Cost =* ***$15,000*** |
|  | *NRV = Estimated selling price – Estimated necessary costs to complete and make the sales* |
|  |  *= $(3,450 - 500) =* ***$2,950*** |
| *Step 2: Compare cost and NRV* |
|  | *As Cost > NRV, inventory is valued at* ***$2,950*** |
| *Step 3: Write down the inventory value* |
|  |  *Inventory value would be written down by $15,000 – $2,950 =* ***$12,050*** |
|  |  |
|  |  *Closing inventory value = $100,000 – $12,050 =* ***$87,950*** |
|  |  |
|  |  |
|  | *Closing inventory value 🡻 => Cost of goods sold 🡹* |
|  |  |
|  |  |  |  |
|  |  |  |
| *W2:* | *Calculation of administrative, selling and distribution expenses for the year ended 31 March 2021* |
|  |  | *$* |
|  | *As per trial balance* | *415,800* |
|  | *Add:* | *Directors’ fees (item ii)* | *120,000* |
|  |  | *Audit fees (item ii)* | *30,000* |
|  |  | *Depreciation expenses (item iv) [$(2,500,000 – 1,080,000) × 15%]* | *213,000* |
|  |  | *Bad debts (item vii) (W3)* | *500* |
|  |  | *779,300* |
|  |  |  |
| *W3: Preparation of allowance for doubtful accounts* |

Step 2: Write off the uncollectible amount from trade receivables account

Step 1: State the balance b/d on the credit side

|  |
| --- |
|  Allowance for doubtful accounts |
|  | $ |  | $ |
| Trade receivables *(Step 2)* | 40,000 | Balance b/d *(Step 1)* | 50,000 |
| Balance c/d *(Step 3)* *$(250,000 – 40,000) × 5%* | 10,500 | Bad debts *(Step 4)* | 500 |
| Step 3: Calculate the balance c/d based on the given percentage and outstanding trade receivables account balance  | 50,500 |  | 50,500 |

Step 4: The balancing figure included in the income statement as bad debts expenses

*W4: Inventory loss in income statement:*

 *$30,000 × 40% = $12,000*

*(Only the amount not covered by insurance should be included as expenses.)*

*Debenture interest is calculated for 9 months from* ***1 Jul 2020 – 31 Mar 2021***

|  |  |
| --- | --- |
| *W5:* | *Calculation of debenture interest for the year ended 31 March 2021* |
|  | *As per trial balance – Debenture interest for 6 months*  | *18,000* |
|  | *Add: Accrued interest for 3 months ($900,000 × 4% × 3/12)*  | *9,000* |
|  |  | *27,000* |

(b)

|  |
| --- |
| Alpha Limited |
| Statement to calculate the retained profit as at 31 March 2021 |
|  | $ | $ |
| Retained profits, April 1 2020 *(from trial balance)* |  | 120,000 |
| Add: Profit after tax (answer from (a)) |  | 674,650 |
|  |  |  | 794,650 |
| Less:  | Transfer to general reserve *(item viii)* | 50,000 |  |
|  | Ordinary share dividends *(item ix)* | 200,000 | 250,000 |
| Retained profits, March 31 2021 |  | 544,650 |
|  |

(c)

*Double entries for writing off the uncollectible amount from the trade receivables account*

*Dr Allowance for doubtful accounts $40,000*

 *Cr Trade receivables $40,000*

|  |  |
| --- | --- |
|  | Alpha Limited Statement of financial position as at 31 March 2021 |
|  | $’000 | $’000 | $’000 |
|  | **ASSETS** |  |  |
|  | **Non-current assets** |  |  |
|  | Office equipment, net *$(2,500,000 – 1,080,000 – 213,000 (item iv))* | 1,207,000 |
|  |  |  |  |
|  | **Current assets** |  |  |
|  | Inventory *$(100,000 – 12,050 (item vi))* | 87,950 |  |
|  | Trade receivables *$(250,000 – 40,000 (item vii))* | 210,000 |  |  |
|  | Less:  | Allowance for doubtful accounts *(W3)* | 10,500 | 199,500 |  |
|  | Insurance compensation receivables *(item vi)($30,000 × 60%)* | 18,000 |  |
|  | Cash at bank  | 5,011,200 | 5,316,650 |
|  | *Total assets*  |  | 6,523,650 |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  | *Allotment of 30,000 ordinary shares* *Dr Share applications $780,000* *Cr Ordinary share capital $780,000*  *(30,000 x $26)* |  |  |
|  | **EQUITY AND LIABILITIES** |  |  |
|  | **Shareholder’s Equity**  |  |  |
|  | Ordinary share capital [$3,500,000 + ($26 × 30,000) *(item i)*]  |  | 4,280,000 |
|  | General reserve *$(80,000 + 50,000)* |  | 130,000 |
|  | Retained profits *(answer from (b))* |  | 544,650 |
|  |  |  |  | 4,954,650 |

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Non-current liabilities** |  |  |
|  | 4% Debentures |  | 900,000 |
|  |  |  |  |
|  | **Current liabilities** |  |  |
|  | Trade payables  | 35,000 |  |
|  | Share applications refundable *(item i) (45,000 – 30,000) × $26*  | 390,000 |  |
|  | Tax payable *(item iii)* | 85,000 |  |
|  | Accrued administrative expenses *$(120,000 +30,000) (item ii)* | 150,000 |  |
|  | Accrued debenture interest *(item v) (W5)* | 9,000 | 669,000 |
|  | *Total liabilities and equity* |  | 6,523,650 |
|  |  |  |  |

*Oversubscribed application monies to be refunded:*

*Dr Share applications $390,000*

 *Cr Share applications refundable $390,000*

**Points to note:**

Different scenarios of share subscription

|  |  |
| --- | --- |
| **Full subscription** | **Over-subscription** |
| No. of shares subscribed = No. of share issued | No. of shares subscribed > No. of share issued |
| Accounting treatment: Step 1 & 2 | Accounting treatment: Step 1 - 3 |

|  |  |
| --- | --- |
| *Step 1: Receive monies from applicants* | Dr Cash at bank Cr Share applications*(No. of shares subscribed × issue price per share)* |
| *Step 2: Allot ordinary shares to successful applicants* | Dr Share applications Cr Ordinary share capital*(No. of shares issued × issue price per share)* |
| *Step 3: Refund monies to unsuccessful applicants* *(over-subscription)* | Dr Share applications Cr Cash at bank / Share applications refundable*[(No. of shares subscribed – no. of shares issued) × issue price per share]* |

|  |
| --- |
| Common mistakes:1. Mixed up the accounting treatments for dividends declared during the financial period and after the financial period.
2. Failed to include the correct amount of loss on destroyed inventory (i.e. the uncompensated amount) in the income statement.
3. Mistakenly treated the reduction in value of slightly damaged inventory as an expense in the income statement.
 |

Graded Assignment: Accounting for Limited Company

Standard Level - Question Paper

|  |  |
| --- | --- |
| (A) | State the differences between ordinary shares and debentures in terms of:1. nature of capital; and
2. financial burden on the limited company. (2 marks)
 |
| (B) | Below is the trial balance of Alpha Limited as at 31 March 2021: |

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
|  | $ | $ |
| Office equipment  | 2,500,000 |  |
| Accumulated depreciation – office equipment, 1 April 2020 |  | 1,080,000 |
| Inventory, 1 April 2020 | 190,000 |  |
| Allowance for doubtful accounts, 1 April 2020 |  | 50,000 |
| Purchases and Sales | 500,000 | 2,150,000 |
| Administrative, selling and distribution expenses | 415,800 |  |
| Ordinary share dividends | 200,000 |  |
| Debenture interest  | 18,000 |  |
| 4% Debentures |  | 900,000 |
| Ordinary share capital  |  | 3,500,000 |
| Cash at bank | 5,011,200 |  |
| General reserve |  | 80,000 |
| Retained profits, 1 April 2020 |  | 120,000 |
| Trade receivables and Trade payables | 250,000 | 35,000 |
| Share applications |  | 1,170,000 |
|  | 9,085,000 | 9,085,000 |
|  |  |  |

Additional information:

|  |  |
| --- | --- |
| (i) | On 1 March 2021, the company issued 30,000 ordinary shares at $26 each. Applications had been received for 45,000 ordinary shares and it was decided to allot the shares on the basis of two shares for every three shares subscribed. The shares had been allotted on 31 March 2021, but no entries were made for this. The excess application monies would be refunded on 7 April 2021. |
|  |  |
| (ii) | The following administrative expenses were to be paid in April 2021:  |
|  | * Directors’ fees of $120,000
 |
|  | * Audit fees of $30,000
 |
|  |  |
| (iii) | Estimated profits tax amounted to $85,000 had not yet been recorded in the books. |
|  |  |
| (iv) | It is the company’s policy to depreciate its non-current assets on a reducing balance basis at a rate of 15% per annum and to classify the depreciation expenses as administrative expenses.  |
|  |  |
| (v) | The 4% debentures were issued on 1 July 2020 with maturity date on 30 June 2023 and the debenture interest is payable at the end of each quarter. |
|  |   |
| (vi) | On 28 March 2021, there was a fire in the warehouse and inventory costing $30,000 was destroyed. The insurance company agreed to compensate the business for 60% of the inventory destroyed. No entries were made in the books. After the physical inventory count on 31 March 2021, the inventory was valued at $100,000. Part of the closing inventory costing $15,000 was slightly damaged and could only be sold for $3,450 after paying repair fee of $500. Closing inventory had not been adjusted for this. |
| (vii) | On 29 March 2021, one of the customers who had owed the company $40,000 had declared bankruptcy. The company decided to write off the debt but no entries were made in the books. An allowance for doubtful accounts of 5% on trade receivables was to be provided on 31 March 2021.  |
|  |  |
| (viii) | On 31 March 2021, the board of directors resolved to transfer $50,000 to general reserve. |
| (ix) | During the year, ordinary share dividends of $200,000 was declared and paid. Final dividend of $2 per share was to be declared in May 2021.  |

**REQUIRED:**

|  |
| --- |
| Prepare for Alpha Limited, |
| (a) | an income statement for the year ended 31 March 2021, showing separately destroyed inventory value, profit before tax and profit after tax. (6 marks)  |
| (b) | a statement to calculate the retained profits as at 31 March 2021. (2 marks) |
| (c) | a statement of financial position as at 31 March 2021. (8 marks)  |

|  |  |
| --- | --- |
|  | (Total: 18 marks) |

Graded Assignment: Accounting for Limited Company

Standard Level – Student Worksheet

1. Differences between ordinary shares and debentures. Fill in the blanks for the following sentences.
2. Ordinary shares are (1) \_\_\_\_\_\_\_\_\_\_\_\_ capital and are reported under the (2) \_\_\_\_\_\_\_\_\_\_\_ part in the statement of financial position. Debentures are (3) \_\_\_\_\_\_\_\_\_\_\_\_ capital and are reported as (4) \_\_\_\_\_\_\_\_\_\_\_\_\_ in the statement of financial position.
3. The limited company pays ordinary shareholders (5) \_\_\_\_\_\_\_\_\_\_\_\_\_ at a (6)\_\_\_\_\_\_\_\_\_\_\_\_ rate but pays debenture holders (7) \_\_\_\_\_\_\_\_\_\_\_\_ at a (8) \_\_\_\_\_\_\_\_\_\_\_\_ rate.

|  |
| --- |
| (B)(a)  |

|  |
| --- |
| Alpha Limited |
| Income statement for the year ended 31 March 2021 |
|  | $ | $ |
| Sales |  |  |
| Less:  | Cost of goods sold  |  |
|  | Opening inventory  |  |
| Inventory destroyed in a fire should be deducted  | Add: PurchasesLess: Destroyed inventory *(item vi)* |  |  |
|  | Less: Closing inventory *(W1)* |   |  |
| Gross profit |  |  |
| Less:  | Expenses |  |  |
|  | Administrative, selling and distribution expenses *(W2)* |  |  |
|  | Inventory loss *(W4)* |  |  |
|  | Debenture interest *(W5)* |  |  |
| Profit before tax |  |  |
| Less: | Profits tax |  |  |
| Profit after tax |  |  |
|  |  |  |
| *W1:* | *The application of lower of cost and net realisable value (NRV):**If NRV > Cost, inventory is valued at cost. No adjustment is required.**If Cost > NRV, inventory is valued at NRV. Inventory value should be written down.* |
|  | *Step 1: Find out the cost and the NRV of the inventory slightly damaged** *Cost = $15,000*
 |
|  | * *NRV = Estimated selling price – Estimated necessary costs to complete and make the sales*
 |
|  |  *= $\_\_\_\_\_\_\_\_\_\_ - $\_\_\_\_\_\_\_\_\_\_ = $\_\_\_\_\_\_\_\_\_\_**Step 2: Compare cost and NRV* |
|  | *As Cost > NRV, inventory is valued at $\_\_\_\_\_\_\_\_\_\_* |
|  | *Step 3: Write down the inventory value**Inventory value would be written down by $\_\_\_\_\_\_\_\_\_\_ – $\_\_\_\_\_\_\_\_\_\_ = $\_\_\_\_\_\_\_\_\_\_**Closing inventory value = $100,000 – $\_\_\_\_\_\_\_\_\_\_ = $\_\_\_\_\_\_\_\_\_\_* |

|  |  |
| --- | --- |
| *W2:* | *Calculation of administrative, selling and distribution expenses*  |
|  |  | *$* |
|  | *As per trial balance* | *415,800* |
|  | *Add:* | *Directors’ fees (item ii)* |  |
|  |  | *Audit fees (item ii)* |  |
|  |  | *Depreciation expenses $(\_\_\_\_\_\_\_\_\_\_ – \_\_\_\_\_\_\_\_\_\_) ×\_\_\_% (item iv)*  |
|  |  | *Bad debts (item vii) (W3)* |  |
|  |  |  |  |
| Calculate the depreciation expenses based on reducing balance method as stated in the company’s policy. *W3: Preparation of allowance for doubtful accounts*Uncollectible amount written off on 29 March 2021 |
|  |  |  |

|  |
| --- |
|  Allowance for doubtful accounts |
|  | $ |  | $ |
| Trade receivables *Step 2* |  | Balance b/d *Step 1* | 50,000 |
| Balance c/d *Step 3*$(\_\_\_\_\_\_\_\_\_\_ – \_\_\_\_\_\_\_\_\_\_) ×\_\_\_\_% | Bad debts *Step 4* |  |
|  |  |  |  |

|  |  |
| --- | --- |
| *W4* | *Item (vi): Inventory costing $30,000 was destroyed in a fire* |
|  |  |
|  | Inventory value destroyed in a fire*(Deduct from purchases)*Amount not covered by insurance (i.e. 40%)*(Income statement: expenses)*Amount covered by insurance (i.e. 60%)*(Current assets: receivables)* *Inventory loss to be included as expenses in the income statement:**$\_\_\_\_\_\_\_\_\_\_\_\_\_ × \_\_\_\_\_% = $\_\_\_\_\_\_\_\_\_\_\_\_\_* |

|  |  |
| --- | --- |
| *W5:* | *Calculation of debenture interest for the year ended 31 March 2021 $* |
|  | *As per trial balance – Debenture interest for 6 months* *1 Jul 2020 – 31 Dec 2020* | *18,000* |
|  | *Add: Accrued interest for 3 months $900,000 × 4% × \_\_\_\_\_\_\_\_\_* |  |
|  | *Reported as Liabilities in the statement of financial position* |  |

*1 Jan 2021 – 31 Mar 2021*

|  |
| --- |
| (B)(b)  |
|

|  |
| --- |
|  Hint: Formula of calculating retained profit at the year end:  |
|  |  |  |
| *Retained profits brought forward*  |
| *Add: Profit after tax*  |
| *Less:* | *Transfer to reserves* |
|  | *Share dividend* |
| *=*  | *Retained profits carried forward* |
|  |  |
|  |
| ***\* Prepare the statement to calculate retained profits with reference to the hints above.*** |
|  |
|  $ | $ | $ |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

 |

(B)(c) Hint: Prepare necessary entries to facilitate the preparation of statement of financial position

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|

|  |
| --- |
| General journal  |
|  | Dr ($) | Cr ($) |
|  |  |  |
| (i) Share applications  | 1,170,000 |  |
|  |  |  |
|  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  | \_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
|  *(\_\_\_\_\_\_\_\_\_\_\_\_\_\_× $\_\_\_\_\_\_\_)* |  |  |
|  \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |  | \_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
|  *[(\_\_\_\_\_\_\_\_\_\_\_\_\_\_ - \_\_\_\_\_\_\_\_\_\_\_\_\_\_) × $\_\_\_\_\_\_\_]* |  |  |
|  |  |  |
|  Share allotted to successful applicants Ordinary share capital  *(Number of shares issued × Issue price)*Share applications   Over-subscribed amount to be refunded Liabilities  *(Number of shares subscribed – Number of shares issued) × Issue price* |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |

 |

***\* Prepare the statement of financial position with reference to in the hints above.***

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |

|  |  |
| --- | --- |
|  |  |
|  |  | $ $ | $ |
|  | **ASSETS** |  |  |
|  |  |  |  |
|  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  | *Total assets* |  |  |
|  |  |  |  |
|  | **EQUITY AND LIABILITIES** |  |  |
|  | **Shareholders’ Equity** |  |  |
|  | Ordinary share capital $(\_\_\_\_\_\_\_\_\_\_\_\_\_\_+\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_(i)) |  |  |
|  | General reserve $(\_\_\_\_\_\_\_\_\_\_\_\_\_\_+\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_(viii)) |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  | **Current liabilities**  |  |  |
|  | Share applications refundable (i) |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |
|  |  |  |  |
|  | *Total equity and liabilities*  |  |  |
|  |  |  |  |

Graded Assignment: Accounting for Limited Company

Standard Level – Suggested Solution and Explanatory Notes

1. Differences between ordinary shares and debentures:
2. Ordinary shares are (1) share capital and are reported under (2) equity part in the statement of financial position. Debentures are (3) loan capital and are reported as (4) liabilities part in the statement of financial position.
3. The company pays ordinary shareholders (5) dividend at a (6) variable rate but pays debenture holders (7) interest at a (8) fixed rate.

(B)(a)

|  |
| --- |
| Alpha Limited |
| Income statement for the year ended 31 March 2021 |
|  | $ | $ |
| SalesInventory damaged in a fire should be deducted from purchases  |  | 2,150,000 |
| Less:  | Cost of goods sold  |  |
|  | Opening inventory  | 190,000 |  |
|  Add: Purchases  | 500,000 |  |
|  Less: Destroyed inventory *(item vi)* | 30,000 |  |
|  Less: Closing inventory *(W1)* | 87,950 | 572,050 |
| Gross profitInventory value would be written down in the cost of goods sold after applying the “lower of cost and NRV” |  | 1,577,950 |
|  |  |  |
| Less:  | Expenses |  |  |
|  | Administrative, selling and distribution expenses *(W2)* | 779,300 |  |
|  | Inventory loss *(W4)* | 12,000 |  |
|  | Debenture interest *(W5)* | 27,000 | 818,300 |
| Profit before tax |  | 759,650 |
| Less: | Profits tax |  | 85,000 |
| Profit after tax |  | 674,650 |
|  |  |  |

|  |  |
| --- | --- |
| *W1:* | *The application of lower of cost and net realisable value (NRV)**If NRV > Cost, inventory is valued at cost. No adjustment is required.**If Cost > NRV, inventory is valued at NRV. Inventory value should be written down.* |
| *Step 1: Find out the cost and the NRV of the inventory slightly damaged* |
|  | *Cost =* ***$15,000*** |
|  | *NRV = Estimated selling price – Estimated necessary costs to complete and make the sales* |
|  |  *= $(3,450 - 500) =* ***$2,950*** |
| *Step 2: Compare cost and NRV* |
|  | *As Cost > NRV, inventory is valued at* ***$2,950*** |
| *Step 3: Write down the inventory value* |
|  |  *Inventory value would be written down by $15,000 – $2,950 =* ***$12,050*** |
|  |  |
|  |  *Closing inventory value = $100,000 – $12,050 =* ***$87,950*** |
|  |  |
|  |  |
|  | *Closing inventory value 🡻 => Cost of goods sold 🡹* |
|  |  |
|  |  |  |  |
|  |  |  |
| *W2:* | *Calculation of administrative, selling and distribution expenses for the year ended 31 March 2021* |
|  |  | *$* |
|  | *As per trial balance* | *415,800* |
|  | *Add:* | *Directors’ fees (item ii)* | *120,000* |
|  |  | *Audit fees (item ii)* | *30,000* |
|  |  | *Depreciation expenses (item iv) [$(2,500,000 – 1,080,000) × 15%]* | *213,000* |
|  |  | *Bad debts (item vii) (W3)* | *500* |
|  |  | *779,300* |
|  |  |  |
| *W3: Preparation of allowance for doubtful accounts* |

Step 2: Write off the uncollectible amount from trade receivables account

Step 1: State the balance b/d on the credit side

|  |
| --- |
|  Allowance for doubtful accounts |
|  | $ |  | $ |
| Trade receivables *(Step 2)* | 40,000 | Balance b/d *(Step 1)* | 50,000 |
| Balance c/d *(Step 3)* *$(250,000 – 40,000) × 5%* | 10,500 | Bad debts *(Step 4)* | 500 |
| Step 3: Calculate the balance c/d based on the given percentage and outstanding trade receivables account balance  | 50,500 |  | 50,500 |

Step 4: The balancing figure included in the income statement as bad debts expenses

*W4: Inventory loss in income statement:*

 *$30,000 × 40% = $12,000*

*(Only the amount not covered by insurance should be included as expenses.)*

*Debenture interest is calculated for 9 months from* ***1 Jul 2020 – 31 Mar 2021***

|  |  |
| --- | --- |
| *W5:* | *Calculation of debenture interest for the year ended 31 March 2021* |
|  | *As per trial balance – Debenture interest for 6 months*  | *18,000* |
|  | *Add: Accrued interest for 3 months ($900,000 × 4% × 3/12)*  | *9,000* |
|  |  | *27,000* |

|  |  |
| --- | --- |
| (b) |  |

|  |
| --- |
| Alpha Limited |
| Statement to calculate the retained profit as at 31 March 2021 |
|  | $ | $ |
| Retained profits, 1 April 2020 |  | 120,000 |
| Add: Profit after tax |  | 674,650 |
|  |  | 794,650 |
| Less:  | Transfer to general reserve  | 50,000 |  |
|  | Ordinary share dividends |  | 200,000 | 250,000 |
| Retained profits, 31 March 2021 |  | 544,650 |
|  |

|  |  |
| --- | --- |
| (c) |  |
|

|  |
| --- |
| General journal  |
|  | Dr ($) | Cr ($) |

 (i) Share applications 1,170,000 Ordinary share capital 780,000 |  |  |
|  (30,000 × $26)  |  |  |
|  Share applications refundable 390,000 |  |  |
|  [(45,000 – 30,000) × $26]  |  |  |
|  |  |  |

|  |  |
| --- | --- |
|  | Alpha Company Limited Statement of financial position as at 31 March 2021 |
|  | $’000 | $’000 | $’000 |
|  | **ASSETS** |  |  |
|  | **Non-current assets** |  |  |
|  | Office equipment, net *$(2,500,000 – 1,080,000 – 213,000 (iv))* | 1,207,000 |
|  |  |  |  |
|  | **Current assets** |  |  |
|  | Inventory *$(100,000 – 12,050 (vi))* | 87,950 |  |
|  | Trade receivables *$(250,000 – 40,000 (vii))* | 210,000 |  |  |
|  | Less:  | Allowance for doubtful accounts *(vii)* | 10,500 | 199,500 |  |
|  | Insurance compensation receivables *(vi)* | 18,000 |  |
|  | Cash at bank  | 5,011,200 | 5,316,650 |
|  | *Total assets* |  | 6,523,650 |
|  |  |  |  |
|  | **EQUITY AND LIABILITIES** |  |  |
|  | **Shareholders’ Equity**  |  |  |
|  | Ordinary share capital *$(3,500,000 + 780,000 (i))*  |  | 4,280,000 |
|  | General reserve *$(80,000 + 50,000 (viii))* |  | 130,000 |
|  | Retained profits |  | 544,650 |
|  |  |  |  | 4,954,650 |
|  | **Non-current liabilities** |  |  |
|  | 4% Debentures |  | 900,000 |
|  |  |  |  |
|  | **Current liabilities** |  |  |
|  | Trade payables  | 35,000 |  |
|  | Share applications refundable *(i)* | 390,000 |  |
|  | Tax payable *(iii)* | 85,000 |  |
|  | Accrued administrative expenses *$(120,000 +30,000) (ii)* | 150,000 |  |
|  | Accrued debenture interest *(v)* | 9,000 | 669,000 |
|  | **TORAL EQUITY AND LIABILITIES** |  | 6,523,650 |
|  |  |  |  |

**Points to note:**

Different scenarios of share subscription

|  |  |
| --- | --- |
| **Full subscription** | **Over-subscription** |
| No. of shares subscribed = No. of share issued | No. of shares subscribed > No. of share issued |
| Accounting treatment: Step 1 & 2 | Accounting treatment: Step 1 - 3 |

|  |  |
| --- | --- |
| *Step 1: Receive monies from applicants* | Dr Cash at bank Cr Share applications*(No. of shares subscribed × issue price per share)* |
| *Step 2: Allot ordinary shares to successful applicants* | Dr Share applications Cr Ordinary share capital*(No. of shares issued × issue price per share)* |
| *Step 3: Refund monies to unsuccessful applicants* *(over-subscription)* | Dr Share applications Cr Cash at bank / Share applications refundable*[(No. of shares subscribed – no. of shares issued) × issue price per share]* |

|  |  |
| --- | --- |
|

|  |
| --- |
| Common mistakes:1. Mixed up the accounting treatments for dividends declared during the financial period and after the financial period.
2. Failed to include the correct amount of loss on destroyed inventory (i.e. the uncompensated amount) in the income statement.
3. Mistakenly treated the reduction in value of slightly damaged inventory as an expense in the income statement.
 |

 |

Graded Assignment: Accounting for Limited Company

Advanced Level - Question Paper

|  |  |
| --- | --- |
| (A) | State the differences between ordinary shares and debentures in terms of:1. nature of capital; and
2. financial burden on the limited company. (2 marks)
 |
| (B) | Below is the trial balance of Alpha Limited as at 31 March 2021: |

|  |  |  |
| --- | --- | --- |
|  | Dr | Cr |
|  | $ | $ |
| Office equipment  | 2,500,000 |  |
| Accumulated depreciation – office equipment, 1 April 2020 |  | 1,080,000 |
| Inventory, 1 April 2020 | 190,000 |  |
| Allowance for doubtful accounts, 1 April 2020 |  | 50,000 |
| Purchases and Sales | 500,000 | 2,150,000 |
| Administrative, selling and distribution expenses | 415,800 |  |
| Ordinary share dividends | 200,000 |  |
| Debenture interest  | 18,000 |  |
| 4% Debentures |  | 900,000 |
| Ordinary share capital  |  | 3,500,000 |
| Cash at bank | 5,011,200 |  |
| General reserve |  | 80,000 |
| Retained profits, 1 April 2020 |  | 120,000 |
| Trade receivables and Trade payables | 250,000 | 35,000 |
| Share applications |  | 1,170,000 |
|  | 9,085,000 | 9,085,000 |
|  |  |  |

Additional information:

|  |  |
| --- | --- |
| (i) | On 1 March 2021, the company issued 30,000 ordinary shares at $26 each. Applications had been received for 45,000 ordinary shares and it was decided to allot the shares on the basis of two shares for every three shares subscribed. The shares had been allotted on 31 March 2021, but no entries were made for this. The excess application monies would be refunded on 7 April 2021. |
|  |  |
| (ii) | The following administrative expenses were to be paid in April 2021:  |
|  | * Directors’ fees of $120,000
 |
|  | * Audit fees of $30,000
 |
|  |  |
| (iii) | Estimated profits tax amounted to $85,000 had not yet been recorded in the books. |
|  |  |
| (iv) | It is the company’s policy to depreciate its non-current assets on a reducing balance basis at a rate of 15% per annum and to classify the depreciation expenses as administrative expenses.  |
|  |  |
| (v) | The 4% debentures were issued on 1 July 2020 with maturity date on 30 June 2023 and the debenture interest is payable at the end of each quarter. |
|  |   |
| (vi) | On 28 March 2021, there was a fire in the warehouse and inventory costing $30,000 was destroyed. The insurance company agreed to compensate the business for 60% of the inventory destroyed. No entries were made in the books. After the physical inventory count on 31 March 2021, the inventory was valued at $100,000. Part of the closing inventory costing $15,000 was slightly damaged and could only be sold for $3,450 after paying repair fee of $500. Closing inventory had not been adjusted for this. |
| (vii) | On 29 March 2021, one of the customers who had owed the company $40,000 had declared bankruptcy. The company decided to write off the debt but no entries were made in the books. An allowance for doubtful accounts of 5% on trade receivables was to be provided on 31 March 2021.  |
|  |  |
| (viii) | On 31 March 2021, the board of directors resolved to transfer $50,000 to general reserve. |
| (ix) | During the year, ordinary share dividends of $200,000 was declared and paid. Final dividend of $2 per share was to be declared in May 2021.  |

**REQUIRED:**

|  |
| --- |
| Prepare for Alpha Limited, |
| (a) | an income statement for the year ended 31 March 2021, showing separately destroyed inventory value, profit before tax and profit after tax. (6 marks)  |
| (b) | a statement to calculate the retained profits as at 31 March 2021. (2 marks) |
| (c) | a statement of financial position as at 31 March 2021. (8 marks)  |

|  |  |
| --- | --- |
|  | (Total: 18 marks) |

Challenging questions

|  |
| --- |
| After preparation of the financial statements for the year ended 31 March 2021, the following omissions in the books were revealed.  |
| (i) | During the year, $300 was received from a customer whose debt had been written off as bad before. |
| (ii) | On 31 March 2021, the company received goods of $3,500 as free sample from a supplier.  |
| **REQUIRED:** |
| Prepare a statement to calculate the revised retained profits as at 31 March 2021. (2 marks) |

Graded Assignment: Accounting for Limited Company

Advanced Level – Student Worksheet

1.

|  |
| --- |
|  |
|  |
|  |
|  |
|  |
|  |
|  |
|  |

(B)(a)

|  |  |
| --- | --- |
| (b) |  |

|  |  |
| --- | --- |
| (c) |  |

Challenging questions

Graded Assignment: Accounting for Limited Company

Advanced Level – Suggested Solution and Explanatory Notes

1. Differences between ordinary shares and debentures:
2. Ordinary shares are share capital and are reported under the equity part in the statement of financial position. Debentures are loan capital and are reported as liabilities in the statement of financial position.
3. The limited company pays ordinary shareholders dividend at a variable rate but pays debenture holders interest at a fixed rate.

*Remarks: There are other differences between ordinary shares and debentures*

|  |  |  |
| --- | --- | --- |
|  | **Ordinary shares** | **Debentures** |
| *Voting rights granted to holders*  | √ | × |
| *Holders’ priority to claim on net assets upon liquidation* | 2nd | 1st  |

|  |
| --- |
| (B)(a)  |
| Alpha Limited |
| Income statement for the year ended 31 March 2021 |
| Inventory damaged in a fire should be deducted from purchases | $ | $ |
| Sales |  | 2,150,000 |
| Less: Cost of goods sold  |  |  |
|  Opening inventory  | 190,000 |  |
|  Add: Purchases | 500,000 |  |
|  Less: Destroyed Inventory  | 30,000 |  |
|  Less: Closing inventory  [$100,000 – ($15,000 – $2,950)]  | 87,950  | 572,050 |
| Gross profitInventory value is valued at the lower of cost and net realisable value *(W2)* |  | 1,577,950 |
|  |  |  |
|  |  |  |
| Less:  | Expenses |  |  |
|  | Administrative, selling and distribution expenses *(W3)* | 779,300 |  |
|  | Inventory loss (W1) | 12,000 |  |
|  | Debenture interest *(W4)* | 27,000 | 818,300 |
| Profit before tax |  | 759,650 |
| Less: | Profits tax |  | 85,000 |
| Profit after tax |  | 674,650 |
|  |  |  |

*(W1) Inventory loss in income statement:*

 *$30,000 × 40% = $12,000*

*(Only the amount not covered by insurance should be included as expenses.)*

*(W2) Application of the rule of “lower of cost and net realisable value (NRV)”:*

|  |  |
| --- | --- |
|  | *If NRV > Cost, inventory is valued at cost. No adjustment is required.**If Cost > NRV, inventory is valued at NRV. Inventory value should be written down.* |
|  |  |
|  | *Cost = $15,000* |
|  | *NRV = Estimated selling price – Estimated necessary costs to complete and make the sale* |
|  |  *= $(3,450 - 500) =* ***$2,950*** |
|  |  |
|  | *As Cost > NRV, inventory should be valued at* ***$2,950*** |
|  | *Inventory value would be* ***written down*** *by $(15,000 – 2,950) = $12,050* |
|  |  |

*(W3) Calculation of administrative, selling and distribution expenses for the year ended 31 March 2021*

|  |  |  |
| --- | --- | --- |
|  |  | *$* |
|  | *As per trial balance* | *415,800* |
|  | *Add:* | *Directors’ fees (item ii)* | *120,000* |
|  |  | *Audit fees (item ii)* | *30,000* |
|  |  | *Depreciation expenses (item iv) $(2,500,000 – 1,080,000) × 15%* | *213,000* |
|  |  | ***Bad debts*** *(item vii)*  | *500* |
|  |  | *779,300* |
|  |  |  |

|  |
| --- |
|  Allowance for doubtful accounts |
|  | $ |  | $ |
| Trade receivables | 40,000 | Balance b/d | 50,000 |
| Balance c/d $(250,000 – 40,000) × 5% | 10,500 | **Bad debts** (balancing figure) | 500 |
|  | 50,500 |  | 50,500 |

|  |  |
| --- | --- |
| *(W4)* | *Calculation of debenture interest for the year ended 31 March 2021 (item v)* |
|  | *As per trial balance – Debenture interest for 6 months*  | *18,000* |
|  | *Add: Accrued interest for 3 months ($900,000 × 4% × 3/12)*  | *9,000* |
|  |  | *27,000* |
|  | *1 Jan 2021 – 31 Mar 2021* |  |
|  |  |  |
|  |  |  |
|  | *Alternative calculation: $900,000 × 4% × 9/12 = $27,000* |  |
| (b) | *1 Jul 2020 – 31 Mar 2021*Formula to calculate the retained profits carried forward: |
|  | *Retained profits carried forward to next year* *= Retained profits brought forward from last year + Net profit after tax - Transfer to reserves (e.g. General reserve) - Share dividends declared during the financial period*  |

|  |
| --- |
| Alpha Limited |
| Statement to calculate the retained profit as at 31 March 2021 |
|  | $ | $ |
| Retained profits, 1 April 2020 |  | 120,000 |
| Add: Profit after tax |  | 674,650 |
|  |  |  | 794,650 |
| Less:  | Transfer to general reserve *(item viii)* | 50,000 |  |
|  | Ordinary share dividends *(item ix)* |  | 200,000 | 250,000 |
| Retained profits, 31 March 2021 |  | 544,650 |

(c)

*Bad debts written off*

*Dr Allowance for doubtful accounts $40,000*

 *Cr Trade receivables $40,000*

|  |  |
| --- | --- |
|  | Alpha Limited Statement of financial position as at 31 March 2021 |
|  | $’000 | $’000 | $’000 |
|  | **ASSETS** |  |  |
|  | **Non-current assets** |  |  |
|  | Office equipment, net *$(2,500,000 – 1,080,000 – 213,000 (item iv))* | 1,207,000 |
|  |  |  |  |
|  | **Current assets** |  |  |
|  | Inventory *$(100,000 – 12,050 (W2))* | 87,950 |  |
|  | Trade receivables *$(250,000 – 40,000 (item vii))* | 210,000 |  |  |
|  | Less:  | Allowance for doubtful accounts$(250,000 – 40,000) × 5% | 10,500 | 199,500 |  |
|  | Insurance compensation receivables *(W1)* | 18,000 |  |
|  | Cash at bank  | 5,011,200 | 5,316,650 |
|  | *Total assets* |  | 6,523,650 |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  | *Allotment of 30,000 ordinary shares* *Dr Share applications $780,000* *Cr Ordinary share capital $780,000*  *(30,000 x $26)* |  |  |
|  | **EQUITY AND LIABILITIES** |  |  |
|  | **Shareholders’ Equity**  |  |  |
|  | Ordinary share capital *$(3,500,000 + 780,000)* |  | 4,280,000 |
|  | General reserve *$(80,000 + 50,000)* |  | 130,000 |
|  | Retained profits *(from part b)* |  | 544,650 |
|  |  |  |  | 4,954,650 |
|  | **Non-current Liabilities** |  |  |
|  | 4% Debentures*Oversubscribed amount to be refunded* *Dr Share applications $390,000* *Cr Share applications refundable $390,000*  *[(45000 - 30,000) x $26]* |  | 900,000 |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  | **Current liabilities** |  |  |
|  | Trade payables  | 35,000 |  |
|  | Share applications refundable (item i) | 390,000 |  |
|  | Tax payable *(item iii)* | 85,000 |  |
|  | Accrued administrative expenses *$(120,000 + 30,000) (item ii)* | 150,000 |  |
|  | Accrued debenture interest *(item v) (W4)* | 9,000 | 669,000 |
|  | *Total equity and liabilities* |  | 6,523,650 |
|  |  |  |  |

Challenging questions

|  |
| --- |
| Alpha Limited |
| Statement to calculate the revised retained profits as at 31 March 2021 |
|  |  | $ |
| Retained profits before revision  |  | 544,650 |
| Add: | Reduction in bad debts (W5) |  | 300 |
| Revised retained profits  |  | 544,950 |
|  |  |  |

(W5)

|  |
| --- |
|  Allowance for doubtful accounts |
|  | $ |  | $ |
| Trade receivables | 40,000 | Balance b/d | 50,000 |
| Balance c/d $(250,000 – 40,000) × 5% | 10,500 | **Trade receivables: Bad debts recovery** | **300** |
|  |  | **Bad debts** (balancing figure) | **200** |
|  | 50,500 |  | 50,500 |

*Double entries required for recording bad debt recovery*

*Dr Trade receivables $300*

 *Cr Allowance for doubtful accounts $300*

*Dr Cash / Bank $300*

 *Cr Trade receivables $300*

Note: Item (ii) does not affect retained profits.

**Points to note:**

Different scenarios of share subscription

|  |  |
| --- | --- |
|  **Full subscription**  | **Over-subscription** |
| No. of shares subscribed = No. of share issued | No. of shares subscribed > No. of share issued |
| Accounting treatment: Step 1 & 2 | Accounting treatment: Step 1 - 3 |

|  |  |
| --- | --- |
| *Step 1: Receive monies from applicants* | Dr Cash at bank Cr Share applications*(No. of shares subscribed × issue price per share)* |
| *Step 2: Allot ordinary shares to successful applicants* | Dr Share applications Cr Ordinary share capital*(No. of shares issued × issue price per share)* |
| *Step 3: Refund monies to unsuccessful applicants* *(over-subscription)* | Dr Share applications Cr Cash at bank / Share applications refundable*[(No. of shares subscribed – no. of shares issued) × issue price per share]* |

|  |
| --- |
| Common mistakes:1. Mixed up the accounting treatments for dividends declared during the financial period and after the financial period.
2. Failed to include the correct amount of loss on destroyed inventory (i.e. the uncompensated amount) in the income statement.
3. Mistakenly treated the reduction in value of slightly damaged inventory as an expense in the income statement.
4. Mistakenly treated free samples received from supplier as purchases.
 |

Graded Assignment: Accounting for Limited Company

Marking Scheme

1. Differences between ordinary shares and debentures:
2. Ordinary shares are share capital and are reported under the equity part in the statement of financial position. Debentures are loan capital and are reported as liabilities in the statement of financial position.
3. The limited company pays ordinary shareholders dividend at a variable rate but pays debenture holders interest at a fixed rate.

 *(1 mark each, total 2 marks)*

Mark

|  |  |
| --- | --- |
| (B)(a)  |  |
| Alpha Limited |  |
| Income statement for the year ended 31 March 2021 |  |
|  | $ | $ |  |
| Sales |  | 2,150,000 | *0.5* |
| Less:  | Cost of goods sold |  |  |
|  | Opening inventory  | 190,000 |  | *0.5* |
|  | Add: Purchases | 500,000 |  | *0.5* |
|  | Less: Destroyed inventory | 30,000 |  | *0.5* |
|  | Less: Closing inventory [$100,000 – ($15,000 – $2,950)] | 87,950  | 572,050 | *0.5* |
| Gross profit |  | 1,577,950 |  |
| Less:  | Expenses |  |  |  |
|  | Administrative, selling and distribution expenses *(W1)* | 779,300 |  | *2* |
|  | Inventory loss ($30,000 × 40%) | 12,000 |  | *0.5* |
|  | Debenture interest | 27,000 | 818,300 | *0.5* |
| Profit before tax |  | 759,650 |  |
| Less: | Profits tax |  | 85,000 | *0.5* |
| Profit after tax |  | 674,650 |  |
|  |  |  | *(6)* |

|  |  |  |
| --- | --- | --- |
| *W1:* | *Calculation of administrative, selling and distribution expenses for the year ended 31 March 2021* |  |
|  |  | *$* |  |
|  | *As per trial balance* | *415,800* |  |
|  | *Add:* | *Administrative expenses $(120,000 + 30,000)*  | *150,000* | *0.5* |
|  |  | *Depreciation expenses* *$(2,500,000 – 1,080,000) × 15%* | *213,000* | *1* |
|  |  | *Bad debts (W2)* | *500* | *0.5* |
|  |  | *779,300* |  |
|  |  |  |  |

 *W2: Preparation of allowance for doubtful accounts*

|  |
| --- |
|  Allowance for doubtful accounts |
|  | $ |  | $ |
| Trade receivables | 40,000 | Balance b/d | 50,000 |
| Balance c/d $(250,000 – 40,000) × 5% | 10,500 | **Bad debts** (balancing figure) | 500 |
|  | 50,500 |  | 50,500 |

(b)

|  |  |
| --- | --- |
| Alpha Limited |  |
| Statement to calculate the retained profit as at 31 March 2021 |  |
|  | $ | $ |  |
| Retained profits, 1 April 2020  |  | 120,000 | *0.5* |
| Add: Profit after tax |  | 674,650 | *0.5* |
|  |  | 794,650 |  |
| Less:  | Transfer to general reserve  | 50,000 |  | *0.5* |
|  | Ordinary share dividends |  | 200,000 | 250,000 | *0.5* |
| Retained profits, 31 March 2021 |  | 544,650 |  |
|  | *(2)* |

(c)

|  |  |
| --- | --- |
| Alpha Limited Statement of financial position as at 31 March 2021 |  |
| $’000 | $’000 | $’000 |  |
| **ASSETS** |  |  |  |
| **Non-current assets** |  |  |  |
| Office equipment, net *$(2,500,000 – 1,080,000 – 213,000)* | 1,207,000 | *1* |
|  |  |  |  |
| **Current assets** |  |  |  |
| Inventory *$(100,000 – 12,050)* | 87,950 |  | *0.5* |
| Trade receivables *$(250,000 – 40,000)* | 210,000 |  |  | *0.5* |
| Less:  | Allowance for doubtful accounts | 10,500 | 199,500 |  | *0.5* |
| Insurance compensation receivables  | 18,000 |  | *0.5* |
| Cash at bank  | 5,011,200 | 5,316,650 | *0.5* |
| *Total assets* |  | 6,523,650 |  |
|  |  |  |  |
| **EQUITY AND LIABILITIES** |  |  |  |
| **Shareholders’ Equity**  |  |  |  |
| Ordinary share capital $(3,500,000 + 780,000) |  | 4,280,000 | *0.5* |
| General reserve *$(80,000 + 50,000)* |  | 130,000 | *0.5* |
| Retained profits |  | 544,650 | *0.5* |
|  |  |  | 4,954,650 |  |
| **Non-current liabilities** |  |  |  |
| 4% Debentures |  | 900,000 | *0.5* |
|  |  |  |  |
| **Current liabilities** |  |  |  |
| Trade payables  | 35,000 |  | *0.5* |
| Share applications refundable  | 390,000 |  | *0.5* |
| Tax payable  | 85,000 |  | *0.5* |
| Accrued administrative expenses *$(120,000 +30,000)*  | 150,000 |  | *0.5* |
| Accrued debenture interest | 9,000 | 669,000 | *0.5* |
| *Total equity and liabilities* |  | 6,523,650 |  |
|  |  |  | *(8)* |

 (Total: 18 marks)

Challenging questions in Advanced Level:

|  |  |
| --- | --- |
| Alpha Limited |  |
| Statement to calculate the revised retained profit as at 31 March 2021 |  |
|  | $ | $ |  |
| Original retained profits  |  | 544,650 |  |
| Add: | Reduction in bad debts *(W3)* |  | 300 | *(1)* |
| Revised retained profits  |  | 544,950 | *(1)* |
|  |  |  |  |

(Total: 2 marks)

*W3: Adjustment of bad debts recovery in allowance for doubtful accounts*

|  |
| --- |
|  Allowance for doubtful accounts |
|  | $ |  | $ |
| Trade receivables | 40,000 | Balance b/d | 50,000 |
| Balance c/d $(250,000 – 40,000) × 5% | 10,500 | **Trade receivables: Bad debts recovery** | **300** |
|  |  | **Bad debts** (balancing figure) | **200** |
|  | 50,500 |  | 50,500 |