**Foreword**

This resource material was developed to provide 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 6:

Period-end Adjustments Relating to the Preparation of Financial Statements

Elementary Level – Question Paper

|  |  |
| --- | --- |
|  |  |
| The trial balance of Alan Company as at 31 December 2019 was prepared as follows: |  |
|  | Dr $ | Cr $ |
| Capital |  | 1,310,000 |
| Purchases | 1,600,000 |  |
| Sales |  | 2,900,000 |
| Electricity expenses | 49,000 |  |
| Insurance expenses | 36,000 |  |
| Rent and rates | 150,000 |  |
| Inventory, 1 January 2019 | 167,000 |  |
| Returns inwards  | 38,000 |  |
| Returns outwards |  | 25,000 |
| Trade receivables | 864,000 |  |
| Trade payables |  | 420,000 |
| Discounts | 55,000 | 28,000 |
| Allowance for doubtful accounts |  | 20,000 |
| Office equipment | 1,900,000 |  |
| Accumulated depreciation – office equipment |  | 670,000 |
| 6% Bank loan |  | 200,000 |
| Cash at bank | 714,000 |  |
|  | 5,573,000 | 5,573,000 |

|  |
| --- |
| Additional information: |
| (i) | Inventory as at 31 December 2019 was valued at $180,000. |
| (ii) | In November 2019, goods invoiced at $120,000 were sent to a customer on a sale-or-return basis at cost plus 50% mark-up. These had been recorded as credit sales for the year. As at 31 December 2019, 80% of the goods were accepted by the customer. |
| (iii) | Annual insurance premium of $6,000 for the year ended 31 March 2020 was paid on 1 May 2019. |
| (iv) | An electricity bill amounting to $3,000 was received but not yet recorded in the books. |
| (v) | Debts amounting to $8,000 were found to be uncollectible and to be written off as bad. Allowance for doubtful accounts is to be made at 5% of the trade receivables. |
| (vi) | The bank loan was acquired on 1 September 2019 and is to be repaid on 30 August 2020. |
| (vii) | Office equipment is to be depreciated at a rate of 20% per annum using the reducing balance method.  |
| REQUIRED: |
| (a) | Prepare the journal entries for items (ii) to (vi). Narrations are not required. (7 marks) |
| (b) | Prepare an income statement for the year ended 31 December 2019. (7 marks) |
| (c) | Prepare a statement of financial position as at 31 December 2019. (6 marks) |
|  | (Total: 20 marks) |

Graded Assignment 6:

Period-end Adjustments Relating to the Preparation of Financial Statements

Elementary Level – Student Worksheet

|  |  |
| --- | --- |
| Hint: | Steps to prepare a journal entry: |
|  | 1. *Identify the accounts (at least 2) involved.*
2. *Determine the nature and the double entry rules of the accounts involved.*
3. *Identify whether an increase or a decrease to be recorded in the accounts.*
4. *Determine which account(s) to be debited and which account(s) to be credited according to the double entry rules of the accounts involved. (refer to reference page)*
5. *State by how much the accounts increased or decreased.*
 |
| (a) | General Journal |
|  |  |  Dr | Cr |
|  |  |  $ | $ |
| (ii)  |  (W1) |  |  |
|  | Trade receivables (e.g.) |  |  |
|  (W2)  Profit and loss (e.g.) |  |  |
|  |  |  |  |
| *Hint 1: Sales overstated by 20%* *Hint 2: Closing Inventory understated by 20%* *= Cost of inventory × % of goods not yet accepted by the customer* *= Invoice price ÷ (1 + mark-up) × % of goods not yet accepted by the customer*When goods are sent on a ‘sale-or-return’ basis, these goods are not treated as sales unless they are accepted by the customer. As at 31 December 2019, 20% of these goods were not yet accepted. In this case, they should be included in Alan’s inventory valuation (at cost) but not in the figure of sales (selling price).(W1) Sales overstated by  = $ \_\_\_\_\_\_\_\_\_\_\_\_\_ × \_\_\_\_\_ % = $\_\_\_\_\_\_\_\_\_\_\_\_\_\_(W2) Closing inventory understated by  = $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ ÷ ( 1 + \_\_\_\_\_ %) × \_\_\_\_\_ % = $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |

|  |  |
| --- | --- |
|  | General Journal |
|  |  | Dr | Cr |
|  |  |  $ |  $ |
| (iii) |

|  |  |  |
| --- | --- | --- |
|  (Working) |  |  |
|  |  |  |
|  | Insurance expenses (e.g.) |  |  |

*Hint: Insurance expenses overstated by the amount not yet incurred in current financial year* *= Insurance premium× number of months not yet incurred ÷ 12*Prepaid expenses are payments made for expenses which have not yet been incurred (i.e. period related to year 2020). The amount not yet incurred shall be transferred to prepaid insurance expenses (assets).(Working) Prepaid insurance expenses  = $ \_\_\_\_\_\_\_\_\_\_\_\_\_ × \_\_\_\_\_ months ÷ 12 = $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ |
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| (iv) |  |  |  |
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| --- | --- | --- |
|  (Working) |  |  |
|  |  |  |
|  | Accrued electricity expenses (e.g.) |   |  24,000 |

 |  |
| *Hint: Electricity expenses understated by the amount that are already incurred but have not yet been paid.*Accrued expenses are expenses that are already incurred but have not yet been paid. Accrued expenses are liabilities.   |
| (v) |  |  |  |
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|  | *Hint 1: Write off bad debts from the trade receivables account (assets) when the debt is determined to be uncollectible.*  |
|  |  *(Hint 2)*Allowance for doubtful accounts (e.g.)*Hint 2: Prepare the allowance for doubtful accounts account*

|  |  |  |
| --- | --- | --- |
| - |  Allowance for doubtful accounts |  + |
| 2019 |  | $ | 2019 |  |
| Dec 31 | Trade receivables(Bad debts written off) |  | Jan 1  | Bal b/d (Stated on trial balance) |  |
|  |  |  |  |  |
| Dec 31 | Bal c/d(Calculation step\*) |  | Dec 31 Bad debts(Balancing figure)  |  |
|  |  |  |  |  |
|  |  |  |  |  |

*\*1st step: Calculate the adjusted trade receivables balance**= Original trade receivables balance (stated on trial balance) – credit sales overstated (item ii) – bad debts written off**=* $*\_\_\_\_\_\_\_\_\_\_\_\_ –* $*\_\_\_\_\_\_\_\_\_\_\_\_ –* $*\_\_\_\_\_\_\_\_\_\_\_\_**=* $*\_\_\_\_\_\_\_\_\_\_\_\_**\*2nd step: Calculate the allowance for doubtful accounts as at 31 December 2019* *= Adjusted trade receivables balance × % (stated in (v))**=* $*\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ × \_\_\_\_\_ %**=* $*\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_* |
|  | General Journal |
|  |  |  Dr | Cr |
|  |  |  $ | $ |
|  |  |  |  |
| (vi) | *Hint: Loan interest expenses understated by the amount that are already incurred (i.e. period between 1 Sep and closing date of the year) but have not yet been paid* *= Bank loan amount × interest rate × number of months incurred ÷ 12*Working:$\_\_\_\_\_\_\_\_\_\_\_\_ × \_\_\_\_\_ % × \_\_\_\_\_ ÷ 12 = $\_\_\_\_\_\_\_\_\_\_\_\_ |
|  |  |  |  |

|  |  |
| --- | --- |
| (b) | Alan Company |
|  |  | $’000 | $’000 | $’000 |
|  | Sales *($\_\_\_\_\_\_\_\_\_\_\_\_\_- $\_\_\_\_\_\_\_\_\_\_\_\_\_ (ii))* |  |  |  |
|  | Less: | Returns inwards |  |  |  |
|  |  |  |  |  |  |
|  | Less: | Cost of goods sold |  |  |  |
|  |  | Opening inventory |  |  |  |
|  |  | Add: Purchases |  |  |  |
|  |  |  Less: Returns outwards |  |  |  |
|  |  |  |  |  |  |  |
|  |  | Less: Closing inventory  *($\_\_\_\_\_\_\_\_\_\_\_\_\_+ $\_\_\_\_\_\_\_\_\_\_\_\_\_ (ii))* |  |  |  |
|  | Gross profit |  |  |  |  |
|  | Add: | Discounts received |  |  |  |  |
|  |  |  |  |  |  |  |
|  | Less: | Expenses |  |  |  |
|  |  | Electricity expenses *($\_\_\_\_\_\_\_\_\_\_\_\_\_+$\_\_\_\_\_\_\_\_\_\_\_\_\_(iv))* |  |  |  |
|  |  | Insurance expenses *($\_\_\_\_\_\_\_\_\_\_\_\_\_- $\_\_\_\_\_\_\_\_\_\_\_\_\_(iii))* |  |  |  |
|  |  | Bad debts *(v)* |  |  |  |
|  |  | Rent and rates |  |  |  |
|  |  | Discounts allowed |  |  |  |
|  |  | Interest expenses *(vi)* |  |  |  |
|  |  | Depreciation expenses *(vii)**($\_\_\_\_\_\_\_\_\_\_\_\_\_-$\_\_\_\_\_\_\_\_\_\_\_\_\_)× \_\_\_\_\_% \** |  |  |
|  | Net profit |  |  |

\*Depreciation expenses under reducing balance method

= (Cost – Accumulated Depreciation) x %

|  |  |  |  |
| --- | --- | --- | --- |
|  |  |  |  |
| (c) | Alan Company  |
|  |  | $’000 | $’000 | $’000 |
|  | **Non-current assets** |  |  |  |  |
|  | Office equipment at cost |  |  |  |  |
|  | Less: | Accumulated depreciation *($\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_+$\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_(vii))* |  |
|  |  |  |  |  |  |  |
|  | **Current assets** |  |  |  |  |
|  | Inventory *($\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_+ $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_(ii))* |  |  |  |  |
|  | Trade receivables *($\_\_\_\_\_\_\_\_\_\_\_\_\_- $\_\_\_\_\_\_\_\_\_\_\_\_\_(ii) -$\_\_\_\_\_\_\_\_\_\_\_\_\_(v))* |  |  |  |  |
|  | Less: Allowance for doubtful accounts *(v)* |  |  |  |  |
|  | Prepaid insurance expenses *(iii)* |  |  |  |  |
|  | Cash at bank |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |  |
|  | **Capital** |  |  |  |  |
|  | Balance as at 1 January 2019 |  |  |  |  |
|  | Add: Net profit for the year |  |  |  |
|  |  |  |  |  |  |  |
|  | **Current liabilities** |  |  |  |  |
|  | Trade payables |  |  |  |  |
|  | 6% Bank loan |  |  |  |  |
|  | Interest payable *(vi)* |  |  |  |  |
|  | Accrued electricity expenses *(iv)* |  |  |  |
|  |  |  |  |  |

**Reference**:

Principles of Double Entry System

|  |  |  |  |
| --- | --- | --- | --- |
|  | Dr | **Asset** | Cr |
|  | *Increase* | *Decrease* |
|  |  |  |
|  | Dr | **Liability** | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |  |
|  | Dr | **Capital** | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |  |
|  | Dr | **Revenue** | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |  |
|  | Dr | **Expense** | Cr |
|  | *Increase* | *Decrease* |
|  |  |  |
|  | Dr | **Prepaid expense** | Cr |
|  | *Increase* | *Decrease* |
|  |  |  |
|  | Dr | **Accrued expense** | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |
|  | Dr | **Allowance for doubtful accounts**  | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |
|  | Dr | **Accumulated depreciation**  | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |
|  |  |  |
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| Graded Assignment 6: Period-end Adjustments Relating to the Preparation of Financial StatementsElementary Level – Suggested Solution and Explanatory Notes |
| (a) | General Journal |
|  |  |  Dr |  Cr |
|  |  |  $ |  $ |
| (ii) | Sales |  | 24,000 |  |
|  | Trade receivables |  | 24,000 |
| ($120,000 × 20%) |  |
| Inventory | 16,000 |  |
|  | Profit and loss |  | 16,000 |
| [$120,000 ÷ (1+50%) × 20%]  |  |
| (iii) | Prepaid insurance expenses | 1,500 |  |
|  | Insurance expenses |  | 1,500 |
| ($6,000 × 3 ÷ 12) |
| (iv) | Electricity expenses | 3,000 |  |
|  | Accrued electricity expenses | 3,000 |
|  |  |  |
| (v) | Allowance for doubtful accounts | 8,000 |  |
|  | Trade receivables |  | 8,000 |
|  |  |  |  |
| Bad debts | 29,600 |  |
|  | Allowance for doubtful accounts |  | 29,600 |
| Hint: Prepare the allowance for doubtful accounts account |  |
|  |

|  |  |  |
| --- | --- | --- |
| - |  Allowance for doubtful accounts |  + |
| 2019 |  | $ | 2019 |  $ |
| Dec 31 | Trade receivables(Bad debts written off) | 8,000 | Jan 1 | Bal b/d (Stated on trial balance) | 20,000 |
| Dec 31 | Bal c/d(Calculation step\*) | 41,600 | Dec 31 | Bad debts (Balancing figure) | 29,600 |
|  |  | 49,600 |  | 49,600 |

*\*1st step: Calculate the adjusted trade receivables balance**= $864,000 - $24,000 - $8,000 = $832,000**\*2nd step: Calculate the allowance for doubtful accounts as at 31 December 2019* *= $832,000 × 5% = $41,600* |
|  |  | General Journal |  |
|  |  | Dr ($) | Cr ($) |
| (vi) | Interest expenses | 4,000 |  |
|  | Interest payable |  | 4,000 |
| ($200,000 × 6% × 4 ÷ 12) |  |  |

|  |  |
| --- | --- |
| (b) | Alan CompanyIncome statement for the year ended 31 December 2019 |
|  |  | $’000 | $’000 | $’000 |
|  | Sales *($2,900,000 – $24,000 (ii))* |  |  | 2,876 |
|  | Less: | Returns inwards |  |  | 38 |
|  |  |  |  |  | 2,838 |
|  | Less: | Cost of goods sold |  |  |  |
|  |  | Opening inventory |  | 167 |  |
|  |  | Add: Purchases | 1,600 |  |  |
|  |  |  Less: Returns outwards | 25 | 1,575 |  |
|  |  |  |  | 1,742 |  |  |
|  |  | Less: Closing inventory*($180,000 + $16,000 (ii))* |  | 196 | 1,546 |
|  | Gross profit |  |  | 1,292 |
|  | Add: | Discounts received |  |  | 28 |
|  |  |  |  |  | 1,320 |
|  | Less: | Expenses |  |  |  |
|  |  | Electricity expenses *($49,000 + $3,000 (iv))*  | 52 |  |  |
|  |  | Insurance expenses *($36,000 – $1,500 (iii))* | 34.5 |  |  |
|  |  | Bad debts *(v)* | 29.6 |  |  |
|  |  | Rent and rates | 150 |  |  |
|  |  | Discounts allowed | 55 |  |  |
|  |  | Interest expenses *(vi)* | 4 |  |  |
|  |  | Depreciation expenses *(vii)* *($1,900,000 – $670,000) ×20%* | 246 | 571.1 |
|  | Net profit |  | 748.9 |
|  |  |  |  |
| (c) | Alan CompanyStatement of financial position as at 31 December 2019 |
|  |  | $’000 | $’000 | $’000 |
|  | **Non-current assets** |  |  |  |  |
|  | Office equipment, at cost  |  |  | 1,900 |  |
|  | Less: | Accumulated depreciation *($670,000 + $246,000 (vii))* | 916 |
|  |  |  |  |  | 984 |  |
|  | **Current assets** |  |  |  |  |
|  | Inventor*y ($180,000 + $16,000 (ii))* |  | 196 |  |  |
|  | Trade receivables *($864,000 – $24,000 (ii) – $8,000 (v))* | 832 |  |  |  |
|  | Less: Allowance for doubtful accounts *(v)* | 41.6 | 790.4 |  |  |
|  | Prepaid insurance expenses *(iii)*  |  | 1.5 |  |  |
|  | Cash at bank |  | 714 | 1,701.9 |
|  |  |  |  | 2,685.9 |
|  |  |  |  |  |  |
|  | **Capital** |  |  |  |  |
|  | Balance as at 1 January 2019 |  |  | 1,310 |  |
|  | Add: Net profit for the year |  |  | 748.9 |
|  |  |  |  |  | 2,058.9 |  |
|  |  |  |  |  |  |  |
|  | **Current liabilities** |  |  |  |  |
|  | Trade payables |  | 420 |  |  |
|  | 6% Bank loan |  | 200 |  |  |
|  | Interest payable *(vi)* |  | 4 |  |  |
|  | Accrued electricity expenses *(iv)* |  | 3 | 627 |
|  |  |  |  | 2,685.9 |

Alternative Format

|  |  |
| --- | --- |
| (c) | Alan CompanyStatement of financial position as at 31 December 2019 |
|  | $’000 | $’000 | $’000 |
|  | **Non-current assets** |  |  |  |
|  | Office equipment, at cost  |  | 1,900 |  |
|  | Less: | Accumulated depreciation *($670,000 + $246,000 (vii))* | 916 |
|  |  |  |  | 984 |  |
|  | **Current assets** |  |  |  |
|  | Inventory *($180,000 + $16,000 (ii))* |  | 196 |  |  |
|  | Trade receivables *($864,000 – $24,000 (ii) – $8,000 (v))* | 832 |  |  |  |
|  | Less: Allowance for doubtful accounts *(v)* | 41.6 | 790.4 |  |  |
|  | Prepaid insurance expenses *(iii)*  |  | 1.5 |  |  |
|  | Cash at bank |  | 714 |
|  |  |  | 1,701.9 |
|  | Less:  | **Current liabilities** |  |  |  |  |
|  |  | Trade payables | 420 |  |  |  |
|  |  | 6% Bank loan | 200 |  |  |  |
|  |  | Interest payable *(vi)* | 4 |  |  |  |
|  |  | Accrued electricity expenses *(iv)* | 3 | 627 |  |  |
|  | **Working capital** |  |  | 1,074.9 |  |
|  |  |  |  |  | 2,058.9 |  |
|  | Financed by |  |  |  |
|  | **Capital** |  |  |  |
|  | Balance as at 1 January 2019 |  | 1,310 |  |
|  | Add: Net profit for the year |  | 748.9 |
|  |  |  |  | 2,058.9 |  |
|  |  |  |  |  |  |

**Points to be noted:**

|  |  |
| --- | --- |
| 1. | Important formula for preparation of an income statement |
|  | *(1)* | *Cost of Goods Sold**= Opening inventory + (Purchases – Returns outwards) - Closing inventory* |
|  | *(2)* | *Gross Profit* *= Sales – Cost of goods sold* |
|  | *(3)**(4)* | *Net profit or Net loss* *= Gross profit + Other revenues – Expenses**Cost × (1 + mark-up) = Invoice price (Sales)* |
| 2. | Discounts allowed – It occurs when the business grants a discount to the customer for earlier settlement of debt. It is an **expense** account with a **debit balance**. |
| 3.4. | Discounts received – It occurs when the business is granted a discount by the supplier for earlier settlement of debt. It is a **revenue** account with a **credit balance**.As the bank loan will be repaid within one year (e.g. 30 Aug 2020), it is classified as **current** **liabilities** on the statement of financial position.  |

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| Common mistakes: |
| 1. | Unable to determine the accounts to be debited and credited correctly even though they can work out the correct figures. |
| 2. | Unable to handle the bad debts and the allowance for doubtful accounts. |
| 3. | Mixed up the discounts allowed and discounts received. |
| 4.5.6. | Wrong classification of prepaid expenses and accrued expenses on the statement of financial position.Wrong classification of bank loan as non-current liabilities on the statement of financial position.Inaccurate headings for the financial statements. For example, income statement as at 31 December 2019 or balance sheet as at 31 December 2019.  |
|  |  |

Graded Assignment 6:

Period-end Adjustments Relating to the Preparation of Financial Statements

Standard Level – Question Paper

|  |  |
| --- | --- |
|  |  |
| The trial balance of Alan Company as at 31 December 2019 was prepared as follows: |  |
|  | Dr$ | Cr$ |
| Capital |  | 1,310,000 |
| Purchases | 1,600,000 |  |
| Sales |  | 2,900,000 |
| Electricity expenses | 49,000 |  |
| Insurance expenses | 36,000 |  |
| Rent and rates | 150,000 |  |
| Inventory, 1 January 2019 | 167,000 |  |
| Returns inwards  | 38,000 |  |
| Returns outwards |  | 25,000 |
| Trade receivables | 864,000 |  |
| Trade payables |  | 420,000 |
| Discounts | 55,000 | 28,000 |
| Allowance for doubtful accounts |  | 20,000 |
| Office equipment | 1,900,000 |  |
| Accumulated depreciation – office equipment |  | 670,000 |
| 6% Bank loan |  | 200,000 |
| Cash at bank | 714,000 |  |
|  | 5,573,000 | 5,573,000 |

|  |
| --- |
| Additional information: |
| (i) | Inventory as at 31 December 2019 was valued at $180,000. |
| (ii) | In November 2019, goods invoiced at $120,000 were sent to a customer on a sale-or-return basis at cost plus 50% mark-up. These had been recorded as credit sales for the year. As at 31 December 2019, 80% of the goods were accepted by the customer. |
| (iii) | Annual insurance premium of $6,000 for the year ended 31 March 2020 was paid on 1 May 2019. |
| (iv) | An electricity bill amounting to $3,000 was received but not yet recorded in the books. |
| (v) | Debts amounting to $8,000 were found to be uncollectible and to be written off as bad. Allowance for doubtful accounts is to be made at 5% of the trade receivables. |
| (vi) | The bank loan was acquired on 1 September 2019 and is to be repaid on 30 August 2020. |
| (vii) | Office equipment is to be depreciated at a rate of 20% per annum using the reducing balance method.  |
| REQUIRED: |
| (a) | Prepare the journal entries for items (ii) to (vi). Narrations are not required. (7 marks) |
| (b) | Prepare an income statement for the year ended 31 December 2019. (7 marks) |
| (c) | Prepare a statement of financial position as at 31 December 2019. (6 marks) |
|  | (Total: 20 marks) |

Graded Assignment 6:

Period-end Adjustments Relating to the Preparation of Financial Statements

Standard Level – Student Worksheet

**Insurance expenses (overstated / understated)\* and (accrued / prepaid)\* expenses understated by the number of months not yet incurred in the current financial year: $\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ x \_\_\_\_\_\_\_ ÷ 12 = $\_\_\_\_\_\_\_\_\_\_\_\_\_**

|  |  |
| --- | --- |
| (a) | **Please circle the correct answers\* and do the calculation in the working box provided for each item.** |
|  |  |
|  | General Journal |  |
|  |  | Dr Cr$ $ |
| (ii) |   \ | **Working 1: Credit sales (overstated / understated)\* by the amount not yet confirmed by the customers: $\_\_\_\_\_\_\_\_\_\_\_\_\_\_ x \_\_\_\_\_\_% = $\_\_\_\_\_\_\_\_\_\_\_\_\_****Working 2: Closing inventory (overstated / understated)\* by the amount not yet confirmed by the customer at cost:****$\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_÷ (1 + \_\_\_\_\_\_%) × \_\_\_\_\_\_\_\_% = $\_\_\_\_\_\_\_\_\_\_\_\_\_** |  |
| (iii)  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| General Journal |
|  | Dr Cr$ $ |
| (iv) |  |  |  |
|  |  |  | **Electricity expenses (overstated / understated)\* and accrued expenses (overstated / understated)\***  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| (v) |  |  |  |
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|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  | **Working 1: When writing off bad debts, trade receivables will (increase / decrease)\* while allowance for doubtful accounts will (increase / decrease)\*.****Working 2: Prepare the allowance for doubtful accounts account**

|  |  |  |
| --- | --- | --- |
| - |  Allowance for doubtful accounts |  + |
| 2019 |  | $ | 2019 |  $ |
| Dec 31 |  |  | Jan 1 |  |  |
|  |  |  |  |  |
| Dec 31 | Bal c/d(Calculation step#) |  | Dec 31 | Bad debts(Balancing figure) |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

**# Trade receivables after adjustment (ii) and bad debts written off x %** **= $(\_\_\_\_\_\_\_\_\_\_ - \_\_\_\_\_\_\_\_\_ - \_\_\_\_\_\_\_\_\_) x \_\_\_\_%** **= $\_\_\_\_\_\_\_\_\_\_\_\_\_** |
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| --- | --- | --- | --- |
|  |  |  |  |
| General Journal |
|  | Dr Cr$ $ |
| (vi) |  |
|  |  |
|  |  |
|  |  |
| **Loan interest and interest payable are (overstated / understated)\* by the amount of interest incurred but not yet paid:****= Bank loan amount x interest rate x number of months incurred ÷ 12** **= $\_\_\_\_\_\_\_\_\_\_\_\_\_x \_\_\_\_\_\_\_% x \_\_\_\_\_\_\_\_ ÷ 12** **= $\_\_\_\_\_\_\_\_\_\_\_\_\_** |  |
|  |  |

|  |  |
| --- | --- |
| (b) |  |
|  |  | $’000 | $’000 | $’000 |
|  | Sales *($\_\_\_\_\_\_\_\_\_\_\_\_ - $\_\_\_\_\_\_\_\_\_\_\_\_\_(ii))* |  |  |  |
|  | Less: |  |  |  |  |
|  |  |  |  |  |  |
|  | Less: | Cost of goods sold |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  | Less: Closing inventory  |  |  |
|  |  *($\_\_\_\_\_\_\_\_\_\_\_\_ + $\_\_\_\_\_\_\_\_\_\_\_\_\_(ii))* |  |  |  |  |
|  | Gross profit |  |  |  |  |
|  | Add: |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  | Less: | Expenses |  |  |  |
|  |  | Electricity expenses *($\_\_\_\_\_\_\_\_\_\_\_ + $\_\_\_\_\_\_\_\_\_\_\_(iv))* |  |  |  |
|  |  | Insurance expenses *($\_\_\_\_\_\_\_\_\_\_\_ - $\_\_\_\_\_\_\_\_\_\_(iii))* |  |  |  |
|  |  | Bad debts *(v)* |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |
|  | Net profit |  |  |

|  |  |
| --- | --- |
| (c) |  |
|  |  | $’000 | $’000 | $’000 |
|  | **Non-current assets** |  |  |  |  |
|  |  |  |  |  |  |
|  | Less: | Accumulated depreciation *($\_\_\_\_\_\_\_\_\_\_\_\_ + $\_\_\_\_\_\_\_\_\_\_\_\_\_(vii))* |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  | **Current assets** |  |  |  |  |
|  | Inventory *($\_\_\_\_\_\_\_\_\_\_\_\_ + $\_\_\_\_\_\_\_\_\_\_\_\_\_(ii))* |  |  |  |  |
|  | Trade receivables *($\_\_\_\_\_\_\_\_\_\_\_\_ - $\_\_\_\_\_\_\_\_\_\_\_(ii) - $\_\_\_\_\_\_\_\_\_\_\_\_(v))* |  |  |  |
|  | Less: Allowance for doubtful accounts *(v)*($\_\_\_\_\_\_\_\_\_\_\_\_ × \_\_\_\_\_%) |  |  |  |
|  | Prepaid insurance expenses *(iii)* |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |  |
|  | **Capital** |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  |  |
|  | **Current liabilities** |  |  |  |  |
|  |  |  |  |  |  |
|  |  |  |  |  |  |
|  | Interest payable *(vi)* |  |  |  |  |
|  | Accrued electricity expenses *(iv)* |  |  |  |
|  |  |  |  |  |
|  |  |  |  |  |

Graded Assignment 6:

Period-end Adjustments Relating to the Preparation of Financial Statements

Standard Level – Suggested Solution and Explanatory Notes

|  |
| --- |
|  |
| (a) | General Journal |
|  |  |  Dr |  Cr |
|  |  |  $ |  $ |
| (ii) | Sales | 24,000 |  |
|  | Trade receivables | 24,000 |
|  |  |  |  |
| Inventory  | 16,000 |  |
|  | Profit and loss | 16,000 |
|  |  |  |
|  |  |  |  |
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|  |  |  |  |
| **Working 1: Credit sales (overstated / understated)\* by the amount not yet confirmed by the customers: $120,000 x 20% = $24,000****Working 2: Closing inventory (overstated / understated)\* by the amount not yet confirmed by the customer at cost:****$120,000 ÷ (1 + 50%) × 20% = $16,000** |  |  |  |
|  |  |  |  |
| (iii) | Prepaid insurance expenses | 1,500 |  |
|  | Insurance expenses | 1,500 |
|  | **Insurance expenses (overstated / understated)\* and (accrued / prepaid)\* expenses understated by the number of months not yet incurred in the current financial year:** **$6,000 x 3 ÷ 12 = $1,500****Point to note: Insurance expenses incurred in the current financial year is determined by the starting date of covering period (i.e. Apr – Dec 2019) of the insurance policy instead of the payment date (i.e. 1 May).**  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| (iv) | Electricity expenses | 3,000 |  |
|  | Accrued electricity expenses | 3,000 |
|  | **Electricity expenses (overstated / understated)\* and accrued expenses (overstated / understated)\***  |  |
|  |  |  |  |
|  |  |  |  |
|  |  |  |  |
| (v) | Allowance for doubtful accounts | 8,000 |  |
|  | Trade receivables | 8,000 |
|  |  |  |
| Bad debts | 29,600 |  |
|  | Allowance for doubtful accounts | 29,600 |
|  |  |  |
|  | **Working 1: When writing off bad debts, trade receivables will (increase / decrease)\* while allowance for doubtful accounts will (increase / decrease)\*.****Working 2: Prepare the allowance for doubtful accounts account**

|  |  |  |
| --- | --- | --- |
| - |  Allowance for doubtful accounts |  + |
| 2019 |  | $ | 2019 |  $ |
| Dec 31 | Trade receivables(Bad debts written off) | 8,000 | Jan 1 | Bal b/d (Stated on trial balance) | 20,000 |
|  |  |  |  |  |  |
| Dec 31 | Bal c/d(Calculation step#) | 41,600 | Dec 31 | Bad debts(Balancing figure) | 29,600 |
|  |  |  |  |  |
|  |  | 49,000 |  | 49,600 |
|  |  |  |  |  |

**# Trade receivables after adjustment (ii) and bad debts written off x %** **= $(864,000 – 24,000 – 8,000) x 5% = $41,600**  |  |  |
|  |  |  |  |
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|  |  |  |  |
|  |  |  |  |
| (vi) | Interest expenses | 4,000 |  |
|  | Interest payable |  | 4,000 |
|  | **Loan interest and interest payable are (overstated / understated)\* by the amount of interest incurred but not yet paid:****= Bank loan amount x interest rate x number of months incurred ÷ 12** **= $200,000 x 6% x 4 ÷ 12** **= $4,000****Point to note: Pay attention to the loan amount with interest rate stated in the trial balance. You are required to calculate the interest expenses and interest payable based on the loan amount and interest rate even though there is no additional information about the loan interest.**  |  |

|  |  |
| --- | --- |
| (b) | Alan CompanyIncome statement for the year ended 31 December 2019 |
|  |  | $’000 | $’000 | $’000 |
|  | Sales *($2,900,000 - $24,000 (ii))* |  |  | 2,876 |
|  | Less: | Returns inwards |  |  | 38 |
|  |  |  |  |  | 2,838 |
|  | Less: | Cost of goods sold |  |  |  |
|  |  | Opening inventory |  | 167 |  |
|  |  | Add: Purchases | 1,600 |  |  |
|  |  |  Less: Returns outwards | 25 | 1,575 |  |
|  |  |  |  | 1,742 |  |  |
|  |  | Less: Closing inventory*($180,000 + $16,000 (ii))* |  | 196 | 1,546 |
|  | Gross profit |  |  | 1,292 |
|  | Add: | Discounts received |  |  | 28 |
|  |  |  |  |  | 1,320 |
|  | Less: | Expenses |  |  |  |
|  |  | Electricity expenses *($49,000 + $3,000 (iv))* | 52 |  |  |
|  |  | Insurance expenses *($36,000 - $1,500 (iii))* | 34.5 |  |  |
|  |  | Bad debts *(v)* | 29.6 |  |  |
|  |  | Rent and rates | 150 |  |  |
|  |  | Discounts allowed | 55 |  |  |
|  |  | Interest expenses *(vi)* | 4 |  |  |
|  |  | Depreciation expenses *(vii)**($1,900,000 - $670,000) × 20%*  | 246 | 571.1 |
|  | Net profit |  | 748.9 |
|  |  |  |  |

|  |  |
| --- | --- |
| (c) | Alan CompanyStatement of financial position as at 31 December 2019 |
|  |  | $’000 | $’000 | $’000 |
|  | **Non-current assets** |  |  |  |  |
|  | Office equipment, at cost |  |  | 1,900 |  |
|  | Less: | Accumulated depreciation *$(670,000 + 246,000 (vii))* | 916 |
|  |  |  |  |  | 984 |  |
|  | **Current assets** |  |  |  |  |
|  | Inventory *($180,000 + 16,000 (ii))* |  | 196 |  |  |
|  | Trade receivables *($864,000 - $24,000 (ii) - $8,000 (v))* | 832 |  |  |  |
|  | Less: Allowance for doubtful accounts *(v)**($832,000 × 5%)* | 41.6 | 790.4 |  |  |
|  | Prepaid insurance expenses *(iii)*  |  | 1.5 |  |  |
|  | Cash at bank |  | 714 | 1,701.9 |
|  |  |  |  | 2,685.9 |
|  |  |  |  |  |  |
|  | **Capital** |  |  |  |  |
|  | Balance as at 1 January 2019 |  |  | 1,310 |  |
|  | Add: Net profit for the year |  |  | 748.9 |
|  |  |  |  |  | 2,058.9 |  |
|  |  |  |  |  |  |  |
|  | **Current liabilities** |  |  |  |  |
|  | Trade payables |  | 420 |  |  |
|  | 6% Bank loan |  | 200 |  |  |
|  | Interest payable *(vi)* |  | 4 |  |  |
|  | Accrued electricity expenses *(iv)* |  | 3 | 627 |
|  |  |  |  | 2,685.9 |

Alternative Format

|  |  |
| --- | --- |
| (c) | Alan CompanyStatement of financial position as at 31 December 2019 |
|  | $’000 | $’000 | $’000 |
|  | **Non-current assets** |  |  |  |
|  | Office equipment, at cost |  | 1,900 |  |
|  | Less: | Accumulated depreciation  *($670,000 +$246,000 (vii))* | 916 |
|  |  |  |  | 984 |  |
|  | **Current assets** |  |  |  |
|  | Inventory *($180,000 + $16,000 (ii))* |  | 196 |  |  |
|  | Trade receivables *($864,000 – $24,000 (ii) – $8,000 (v))* | 832 |  |  |  |
|  | Less: Allowance for doubtful accounts *(v)**($832,000 × 5%)* | 41.6 | 790.4 |  |  |
|  | Prepaid insurance expenses *(iii)*  |  | 1.5 |  |  |
|  | Cash at bank |  | 714 |
|  |  |  | 1,701.9 |
|  | Less:  | **Current liabilities** |  |  |  |  |
|  |  | Trade payables | 420 |  |  |  |
|  |  | 6% Bank loan | 200 |  |  |  |
|  |  | Interest payable *(vi)* | 4 |  |  |  |
|  |  | Accrued electricity expenses *(iv)* | 3 | 627 |  |  |
|  | **Working capital** |  |  | 1,074.9 |  |
|  |  |  |  |  | 2,058.9 |  |
|  | Financed by |  |  |  |
|  | **Capital** |  |  |  |
|  | Balance as at 1 January 2019 |  | 1,310 |  |
|  | Add: Net profit for the year |  | 748.9 |
|  |  |  |  | 2,058.9 |  |
|  |  |  |  |  |  |

**Points to be noted**:

1. Principles of Double Entry System

|  |  |  |  |
| --- | --- | --- | --- |
|  | Dr |  **Asset (e.g. prepaid expenses)** | Cr |
|  | *Increase* | *Decrease* |
|  |  |  |
|  | Dr |  **Liability (e.g. accrued expenses)** | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |  |
|  | Dr | **Capital** | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |  |
|  | Dr |  **Revenue (e.g. discounts received)** | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |  |
|  | Dr |  **Expense (e.g. discounts allowed)** | Cr |
|  | *Increase* | *Decrease* |
|  |  |  |
|  | Dr | **Allowance for doubtful accounts**  | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |
|  | Dr | **Accumulated depreciation**  | Cr |
|  | *Decrease* | *Increase* |
|  |  |  |

2. Important formula:

 (a) Cost × (1 + mark-up) = Selling Price

 (b) Closing balance of allowance for doubtful accounts

 =Trade receivables after adjustment and bad debt written off × %

|  |  |
| --- | --- |
| 3. | When goods are sent on a ‘sale-or-return’ basis, these goods are not treated as sales unless they are accepted by the customer. In item (ii), 20% of these goods were still not accepted by the customer at the end of the financial year. In this case, they should be included in Alan’s inventory valuation (at cost) but not in the figure of sales (selling price). |
|  |  |  |
| 4. | In item (vi), the acquisition date and repayment date of the bank loan were given. As the bank loan was borrowed in between the financial year, the interest expenses should be calculated based on the number of months incurred for the current year only. Since the bank loan would be repaid within one year, it should be classified as current liability instead of non-current liability.  |
|  |

 (c) Depreciation expense under reducing balance method

 = (Cost – Accumulated Depreciation) × %

|  |
| --- |
| Common mistakes: |
| 1. | Failed to convert the selling price to the cost of inventory based on the mark-up formula.  |
| 2. | Mixed up the closing balance of and the change in allowance for doubtful accounts. For instance, reporting the closing balance of allowance for doubtful accounts account in the income statement.  |
| 3.4. | Unable to identify the bank loan as current liability.Missing headings for financial statements.  |
| 5. | Inaccurate account name: Students are expected to adopt the account names given for answering the questions. For example: trade payables given in the question cannot be replaced by accounts payables.  |
|  |  |
|  |  |

Graded Assignment 6:

Period-end Adjustments Relating to the Preparation of Financial Statements

Advanced Level – Question Paper

|  |  |
| --- | --- |
|  |  |
| The trial balance of Alan Company as at 31 December 2019 was prepared as follows: |  |
|  | Dr$ | Cr$ |
| Capital |  | 1,310,000 |
| Purchases | 1,600,000 |  |
| Sales |  | 2,900,000 |
| Electricity expenses | 49,000 |  |
| Insurance expenses | 36,000 |  |
| Rent and rates | 150,000 |  |
| Inventory, 1 January 2019 | 167,000 |  |
| Returns inwards  | 38,000 |  |
| Returns outwards |  | 25,000 |
| Trade receivables | 864,000 |  |
| Trade payables |  | 420,000 |
| Discounts | 55,000 | 28,000 |
| Allowance for doubtful accounts |  | 20,000 |
| Office equipment | 1,900,000 |  |
| Accumulated depreciation – office equipment |  | 670,000 |
| 6% Bank loan |  | 200,000 |
| Cash at bank | 714,000 |  |
|  | 5,573,000 | 5,573,000 |

|  |
| --- |
| Additional information: |
| (i) | Inventory as at 31 December 2019 was valued at $180,000. |
| (ii) | In November 2019, goods invoiced at $120,000 were sent to a customer on a sale-or-return basis at cost plus 50% mark-up. These had been recorded as credit sales for the year. As at 31 December 2019, 80% of the goods were accepted by the customer. |
| (iii) | Annual insurance premium of $6,000 for the year ended 31 March 2020 was paid on 1 May 2019. |
| (iv) | An electricity bill amounting to $3,000 was received but not yet recorded in the books. |
| (v) | Debts amounting to $8,000 were found to be uncollectible and to be written off as bad. Allowance for doubtful accounts is to be made at 5% of the trade receivables. |
| (vi) | The bank loan was acquired on 1 September 2019 and is to be repaid on 30 August 2020. |
| (vii) | Office equipment is to be depreciated at a rate of 20% per annum using the reducing balance method.  |
| REQUIRED: |
| (a) | Prepare the journal entries for items (ii) to (vi). Narrations are not required. (7 marks) |
| (b) | Prepare an income statement for the year ended 31 December 2019. (7 marks) |
| (c) | Prepare a statement of financial position as at 31 December 2019. (6 marks) |
|  | (Total: 20 marks) |

|  |
| --- |
| Challenging question |
| On 31 December 2019, it was discovered that part of the closing inventory costing $32,000 had been damaged and could only be sold at 30% of the normal selling price after having them repaired for $2,500. Alan Company normally sold goods at a gross profit margin of 20%. No adjustment had been made in the closing inventory mentioned in (i). |
|  |
| (d) Prepare the journal entry for adjusting the inventory. (3 marks) |
|  |

Graded Assignment 6:

Period-end Adjustments Relating to the Preparation of Financial Statements

Advanced Level – Student Worksheet

(a)

(b)

(c)

Challenging question

(d)

|  |
| --- |
| Graded Assignment 6: Period-end Adjustments Relating to the Preparation of Financial StatementsAdvanced Level – Suggested Solution and Explanatory Notes |
| (a) | General Journal |
|  |  |  | Dr | Cr |
|  |  |  | $ | $ |
|  | (ii) | Sales ($120,000 × 20%) | 24,000 |  |
|  |  |  | Trade receivables |  | 24,000 |
|  |  |  |  |  |  |
|  |  | Inventory ($120,000 ÷ 1.5 × 20%) | 16,000 |  |
|  |  |  | Profit and loss |  | 16,000 |
|  | (iii) | Prepaid insurance expenses ($6,000 ÷ 12 × 3) | 1,500 |  |
|  |  |  | Insurance expenses |  | 1,500 |
|  | (iv) | Electricity expenses | 3,000 |  |
|  |  |  | Accrued electricity expenses |  | 3,000 |
|  | (v) | Allowance for doubtful accounts | 8,000 |  |
|  |  |  | Trade receivables |  | 8,000 |
|  |  | Bad debts (W1) | 29,600 |  |
|  |  |  | Allowance for doubtful accounts |  | 29,600 |
|  | (vi) | Interest expenses ($200,000 × 6% ÷ 12 × 4) | 4,000 |  |
|  |  |  | Interest payable |  | 4,000 |

(W1)

|  |  |  |
| --- | --- | --- |
| - |  Allowance for doubtful accounts |  + |
| 2019 |  | $ | 2019 |  $ |
| Dec 31 | Trade receivables(Bad debts written off) | 8,000 | Jan 1 | Bal b/d (stated on trial balance) | 20,000 |
|  |  |  |  |  |  |
| Dec 31 | Bal c/d(Calculation)\* | 41,600 | Dec 31 | Bad debts (Balancing figure) | 29,600 |
|  |  |  |  |  |
|  |  | 49,600 |  | 49,600 |

\*Allowance for doubtful accounts as at 31 December = $(864,000 – 24,000 – 8,000) × 5% = $41,600

|  |  |
| --- | --- |
| (b) | Alan CompanyIncome statement for the year ended 31 December 2019 |
|  |  | $’000 | $’000 | $’000 |
|  | Sales *($2,900,000 - $24,000 (ii))* |  |  | 2,876 |
|  | Less: | Returns inwards |  |  | 38 |
|  |  |  |  |  | 2,838 |
|  | Less: | Cost of goods sold |  |  |  |
|  |  | Opening inventory |  | 167 |  |
|  |  | Add: Purchases | 1,600 |  |  |
|  |  |  Less: Returns outwards | 25 | 1,575 |  |
|  |  |  |  | 1,742 |  |  |
|  |  | Less: Closing inventory *($180,000 + $16,000 (ii))* |  | 196 | 1,546 |
|  | Gross profit |  |  | 1,292 |
|  | Add: | Discounts received |  |  | 28 |
|  |  |  |  |  | 1,320 |
|  | Less: | Expenses |  |  |  |
|  |  | Electricity expenses *($49,000 + $3,000 (iv))* | 52 |  |  |
|  |  | Insurance expenses *($36,000 - $1,500 (iii))* | 34.5 |  |  |
|  |  | Bad debts *(v)* | 29.6 |  |  |
|  |  | Rent and rates | 150 |  |  |
|  |  | Discounts allowed | 55 |  |  |
|  |  | Interest expenses *(vi)* *($200,000* × *6%* × *4/12)* | 4 |  |  |
|  |  | Depreciation expenses *(vii)* *($1,900,000 - $670,000)* ×  *20%* | 246 | 571.1 |
|  | Net profit |  | 748.9 |
|  |  |  |  |
| (c) | Alan CompanyStatement of financial position as at 31 December 2019 |
|  |  | $’000 | $’000 | $’000 |
|  | **Non-current assets** |  |  |  |  |
|  | Office equipment at cost |  |  | 1,900 |  |
|  | Less: | Accumulated depreciation *($670,000 + $246,000 (vii))* | 916 |
|  |  |  |  |  | 984 |  |
|  | **Current assets** |  |  |  |  |
|  | Inventory *($180,000 + $16,000 (ii))* |  | 196 |  |  |
|  | Trade receivables *($864,000 – $24,000 (ii) – $8,000 (v))* | 832 |  |  |  |
|  | Less: Allowance for doubtful accounts *(v)* | 41.6 | 790.4 |  |  |
|  | Prepaid insurance expenses *(iii)*  |  | 1.5 |  |  |
|  | Cash at bank |  | 714 | 1,701.9 |
|  |  |  |  | 2,685.9 |
|  |  |  |  |  |  |
|  | **Capital** |  |  |  |  |
|  | Balance as at 1 January 2019 |  |  | 1,310 |  |
|  | Add: Net profit for the year |  |  | 748.9 |
|  |  |  |  |  | 2,058.9 |  |
|  |  |  |  |  |  |  |
|  | **Current liabilities** |  |  |  |  |
|  | Trade payables |  | 420 |  |  |
|  | 6% Bank loan |  | 200 |  |  |
|  | Interest payable *(vi)* |  | 4 |  |  |
|  | Accrued electricity expenses *(iv)* |  | 3 | 627 |
|  |  |  |  | 2,685.9 |

Alternative Format

|  |  |
| --- | --- |
| (c) | Alan CompanyStatement of financial position as at 31 December 2019 |
|  | $’000 | $’000 | $’000 |
|  | **Non-current assets** |  |  |  |
|  | Office equipment at cost |  | 1,900 |  |
|  | Less: | Accumulated depreciation  *($670,000 + $246,000 (vii))* | 916 |
|  |  |  |  | 984 |  |
|  | **Current assets** |  |  |  |
|  | Inventory *($180,000 + $16,000 (ii))* |  | 196 |  |  |
|  | Trade receivables *($864,000 – $24,000 (ii) – $8,000(v))* | 832 |  |  |  |
|  | Less: Allowance for doubtful accounts *(v)* | 41.6 | 790.4 |  |  |
|  | Prepaid insurance expenses *(iii)*  |  | 1.5 |  |  |
|  | Cash at bank |  | 714 |
|  |  |  | 1,701.9 |
|  | Less:  | **Current liabilities** |  |  |  |  |
|  |  | Trade payables | 420 |  |  |  |
|  |  | 6% Bank loan | 200 |  |  |  |
|  |  | Interest payable *(vi)* | 4 |  |  |  |
|  |  | Accrued electricity expenses *(iv)* | 3 | 627 |  |  |
|  | **Working capital** |  |  | 1,074.9 |  |
|  |  |  |  |  | 2,058.9 |  |
|  | Financed by |  |  |  |
|  | **Capital** |  |  |  |
|  | Balance as at 1 January 2019 |  | 1,310 |  |
|  | Add: Net profit for the year |  | 748.9 |
|  |  |  |  | 2,058.9 |  |
|  |  |  |  |  |  |

|  |
| --- |
| Challenging question(d)  |
|  | General Journal |
|  |  |  | Dr | Cr |
|  |  |  | $ | $ |
|  | Profit and loss | 22,500 |  |
|  |  |  | Inventory |  | 22,500 |
|  | Narrations: Inventory value written down |  |  |
|  |  |  |  |  |  |
|  | Explanatory note Under Prudence Concept, assets and profits should not be overstated while liabilities and expenses should not be understated. Hence, inventory should be valued at lower of cost and net realisable value (NRV) as follows:If NRV > Cost, inventory is valued at cost;If Cost > NRV, inventory is valued at NRVNet realisable value (NRV)= Estimated selling price – Estimated costs of completion and disposal= $32,000 ÷ (1 – 20%)\* × 30% - $2,500= $9,500As the NRV of $9,500 is lower than the cost of the inventory amounting to $32,000, the inventory value has to be written down by $22,500. \* Conversion from Cost (C) to Sales (S) based on gross profit margin (M)M = (S – C) ÷ SS – C = S × MS – S × M = CS × (1 – M) = CS = C ÷ (1 – M)Sales = Cost ÷ (1 – Margin)In the challenging question, the normal selling price = $32,000 ÷ (1 – 20%) = $40,000 |

**Points to be noted:**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 1. Important formula: a) Mark-up = Profit ÷ Cost b) Gross profit margin = Profit ÷ Sales c) Closing balance of allowance for doubtful accounts  =Trade receivables after adjustment (ii) and bad debt written off × %  d) Depreciation expense under reducing balance method = (Cost – Accumulated Depreciation) × %e) Net realisable value = Expected selling price - expected cost associate with the sales

|  |  |
| --- | --- |
| 2. | According to the realisation concept, revenue should be recognised in the period when the goods are dispatched and accepted by customers or when the services are rendered. Revenues are recognised only when the whole earning process is completed. When goods are sent on a ‘sale-or-return’ basis, these goods are not treated as sales unless they are accepted by the customer. In item (ii), 20% of these goods were still not accepted by the customer at the end of the financial year. In this case, they should be included in Alan’s inventory valuation (at cost) but not in the figure of sales (selling price). |
|  |  |  |
| 3. | Accrual concept states that income and expenses are recognised when they are earned or incurred, not when they are received or paid. For example, even though no payment was made on the interest expenses for the bank loan in item (vi), the interest expenses should be calculated based on the number of months incurred for the year (i.e. from Sep to Dec 2019) and recorded in the financial statements.  |

 |
| Common mistakes: |
| 1. | Fail to do conversion between cost and sales based on formulas of mark-up and margin.  |
| 2. | Missing interest expenses in the income statement. |
| 3. | Mistakenly using the unadjusted balance of trade receivables to calculate allowance for doubtful accounts.  |
| 4. | Missing narrations in part (d). |
|  |  |

Graded Assignment 6:

Period-end Adjustments Relating to the Preparation of Financial Statements

Marking Scheme

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  |  |  |  |  | **Marks** |
| (a) | **General Journal** |  |
|  |  |  | Dr | Cr |  |
|  |  |  | $ | $ |  |
|  | (ii) | Sales ($120,000 × 20%) | 24,000 |  | *0.5* |
|  |  |  | Trade receivables |  | 24,000 | *0.5* |
|  |  |  |  |  |  |  |
|  |  | Inventory ($120,000 ÷ 1.5 × 20%) | 16,000 |  | *0.5* |
|  |  |  | Profit and loss |  | 16,000 | *0.5* |
|  | (iii) | Prepaid insurance expenses ($6,000 ÷ 12 × 3) | 1,500 |  | *0.5* |
|  |  |  | Insurance expenses |  | 1,500 | *0.5* |
|  | (iv) | Electricity expenses | 3,000 |  | *0.5* |
|  |  |  | Accrued electricity expenses |  | 3,000 | *0.5* |
|  | (v) | Allowance for doubtful accounts | 8,000 |  | *0.5* |
|  |  |  | Trade receivables |  | 8,000 | *0.5* |
|  |  | Bad debts (W1) | 29,600 |  | *0.5* |
|  |  |  | Allowance for doubtful accounts |  | 29,600 |  *0.5* |
|  | (vi) | Interest expenses ($200,000 × 0.06 ÷ 12 × 4) | 4,000 |  | *0.5* |
|  |  |  | Interest payable |  | 4,000 | *0.5* |
|  |  |  |  |  | (Total: 7 marks) |

|  |  |
| --- | --- |
| (b) | Alan CompanyIncome statement for the year ended 31 December 2019 |
|  |  | $’000 | $’000 | $’000 |  |
|  | Sales $(2,900,000 – 24,000) |  |  | 2,876 | *0.5* |
|  | Less: | Returns inwards |  |  | 38 | *0.5* |
|  |  |  |  |  | 2,838 |  |
|  | Less: | Cost of goods sold |  |  |  |  |
|  |  | Opening inventory |  | 167 |  |  |
|  |  | Add: Purchases | 1,600 |  |  |  |
|  |  |  Less: Returns outwards | 25 | 1,575 |  |  |
|  |  |  |  | 1,742 |  | *0.5* |
|  |  | Less: Closing inventory $(180,000 + 16,000) |  | 196  | 1,546 | *0.5* |
|  | Gross profit |  |  | 1,292 |  |
|  | Add: | Discounts received |  |  | 28 | *0.5* |
|  |  |  |  |  | 1,320 |  |
|  | Less: | Expenses |  |  |  |
|  |  | Electricity expenses $(49,000 + 3,000) | 52 |  | *0.5* |
|  |  | Insurance expenses $(36,000 – 1,500)  | 34.5 |  | *0.5* |
|  |  | Bad debts (W1) | 29.6 |  | *1* |
|  |  | Rent and rates | 150 |  | *0.5* |
|  |  | Discounts allowed | 55 |  | *0.5* |
|  |  | Interest expenses  | 4 |  | *0.5* |
|  |  | Depreciation expenses ($1,900,000 - $670,000) × 20% | 246 | 571.1 | *0.5* |
|  | Net profit |  | 748.9 | *0.5* |

(Total: 7 marks)

|  |  |
| --- | --- |
| (c) | Alan CompanyStatement of financial position as at 31 December 2019 |
|  |  | $’000 | $’000 | $’000 |  |
|  | **Non-current assets** |  |  |  |  |
|  | Office equipment at cost |  |  | 1,900 |  |
|  | Less: | Accumulated depreciation ($670,000 + $246,000) |  | 916 |  |
|  |  |  |  |  | 984 | *0.5* |
|  | **Current assets** |  |  |  |  |
|  | Inventory $(180,000 + 16,000) |  | 196 |  | *0.5* |
|  | Trade receivables $(864,000 – 24,000 – 8,000) | 832 |  |  | *0.5* |
|  | Less: Allowance for doubtful accounts ($832,000 × 0.05) | 41.6 | 790.4 |  | *0.5* |
|  | Prepaid insurance expenses ($6,000 ÷ 12 × 3) |  | 1.5 |  | *0.5* |
|  | Cash at bank |  | 714 | 1,701.9 | *0.5* |
|  |  |  |  | 2,685.9 |  |
|  |  |  |  |  |  |
|  | **Capital** |  |  |  |  |
|  | Balance as at 1 January 2019 |  |  | 1,310 | *0.5* |
|  | Add: Net profit for the year |  |  | 748.9 | *0.5* |
|  |  |  |  |  | 2,058.9 |  |
|  |  |  |  |  |  |  |
|  | **Current liabilities** |  |  |  |  |
|  | Trade payables |  | 420 |  | *0.5* |
|  | 6% Bank loan |  | 200 |  | *0.5* |
|  | Interest payable |  | 4 |  | *0.5* |
|  | Accrued electricity expenses |  | 3 | 627 | *0.5* |
|  |  |  |  | 2,685.9 |  |

 (Total: 6 marks)

Alternative Format

|  |  |
| --- | --- |
|  | Alan CompanyStatement of financial position as at 31 December 2019 |
|  |  $’000 | $’000 | $’000 |
|  | **Non-current assets** |  |  |  |
|  | Office equipment at cost |  | 1,900 |  |
|  | Less: | Accumulated depreciation *($670,000 +$246,000)* | 916 |
|  |  |  |  | 984 | *0.5* |
|  | **Current assets** |  |  |  |
|  | Inventory *($180,000 + $16,000)* |  | 196 |  | *0.5* |
|  | Trade receivables*($864,000 – $24,000 – $8,000)* | 832 |  |  | *0.5* |
|  | Less: Allowance for doubtful accounts ($832,000 × 0.05) | 41.6 | 790.4 |  | *0.5* |
|  | Prepaid insurance expenses  |  | 1.5 |  | *0.5* |
|  | Cash at bank |  | 714 |  | *0.5* |
|  |  |  | 1,701.9 |
|  | Less:  | **Current liabilities** |  |  |  |  |
|  |  | Trade payables | 420 |  |  | *0.5* |
|  |  | 6% Bank loan | 200 |  |  | *0.5* |
|  |  | Interest payable  | 4 |  |  | *0.5* |
|  |  | Accrued electricity expenses  | 3 | 627 |  | *0.5* |
|  | **Working capital** |  |  | 1,074.9 |  |
|  |  |  |  |  | 2,058.9 |  |
|  | Financed by |  |  |  |
|  | **Capital** |  |  |  |
|  | Balance as at 1 January 2019 |  | 1,310 | *0.5* |
|  | Add: Net profit for the year |  | 748.9 | *0.5* |
|  |  |  |  | 2,058.9 |  |
|  |  |  |  |  |  |

(Total: 6 marks)

(W1)

|  |  |  |
| --- | --- | --- |
| - |  Allowance for doubtful accounts |  + |
| 2019 |  | $ | 2019 |  $ |
| Dec 31 | Trade receivables(Bad debts written off) | 8,000 | Jan 1 | Bal b/d (Stated on trial balance) | 20,000 |
|  |  |  |  |  |  |
| Dec 31 | Bal c/d (Calculation step\*) | 41,600 | Dec 31 | Bad debts (Balancing figure) | 29,600 |
|  |  |  |  |  |
|  |  | 49,600 |  | 49,600 |

\* Calculation steps

Step 1: Calculate the adjusted balance of trade receivables

 = $(864,000 – 24,000 – 8,000) = $832,000

Step 2: Calculate the allowance for doubtful accounts as at 31 December 2019

 = $832,000 × 5% = $41,600

|  |
| --- |
| Challenging question (d)  |
|  |
| General Journal |
|  |  | Dr | Cr |
|  |  | $ | $ |
| Profit and loss | 22,500 | (1) |
|  |  | Inventory |  | 22,500 (1) |
|  |  |  |  |  |
| Narrations: Inventory value written down |  | (1) |
|  |  |  |  |  |
|  |  |  |  | (3 marks) |
| WorkingsNet realisable value (NRV)= $32,000 ÷ (1 – 20%) × 30% - $2,500= $9,500 (1 mark) Amount written down in the inventory value |
| = $32,000 - $9,500 = $22,500 (1 mark) |
|  |
|  |
|  |