

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 4 – Incomplete Records
Elementary Level – Question Paper

(For refined curriculum to be implemented at S4 in 2022/23 school year and onwards)

Candy Chan, the owner of a retail shop, who did not keep proper accounting records for her business. On 31 December 2019, her assistant disappeared suddenly and all cash in hand amounted to \$24,000 was stolen. After investigation, the following information was available:

- (i) All sales were made on cash basis at a uniform mark-up of 60% for the year 2019.
- (ii) A summary of receipts and payments in cash at bank account for the year ended 31 December 2019 was as follows:

<u>Receipts</u>	\$
Cash deposit	1,130,000
 <u>Payments</u>	 \$
Administrative expenses	230,000
Selling expenses	54,000
Payments to suppliers	897,000
Bank charges	5,000
Candy's personal expenses	85,000
Office equipment (purchased on 1 November 2019)	100,000

- (iii) All purchases were made on credit and the amount owing to suppliers as at 31 December 2019 was \$128,000.
- (iv) During 2019, selling expenses of \$50,000 were paid in cash and sales commission for December 2019 amounting to \$4,000 was to be paid on 5 January 2020.
- (v) The insurance company had agreed to compensate the business for 40% of the cash stolen.
- (vi) A physical inventory count showed that the cost of inventory on 31 December 2019 was \$300,000. It was found that 25% of the inventory was slightly damaged and could only be sold for \$58,000 after repair costing \$4,000.
- (vii) Balances of the business as at 31 December 2018 were as follows:

	\$
Office equipment, net (with a cost of \$250,000)	180,000
Inventory	130,000
Cash at bank	450,000
Trade payables	110,000
Accrued selling expenses	3,000
Cash in hand	12,000

- (viii) It is the company's policy to charge depreciation on office equipment at a rate of 15% per annum on a straight-line basis.

REQUIRED:

- (a) Prepare a statement of affairs as at 1 January 2019. (2 marks)
 - (b) Prepare an income statement for the year ended 31 December 2019, showing the cash loss separately. (11 marks)
 - (c) Prepare a statement of financial position as at 31 December 2019. (6 marks)
- (Total: 19 marks)

(a) Hint 1: A statement of affairs is a statement showing the accounting equation of a business including assets, liabilities and capital as at a certain date:

Hint 2: Pay attention to the date. Find out all the balances of Assets and Liabilities as at 1 Jan 2019 (or 31 Dec 2018), then calculate the Capital balance.

Elementary level: Page.3

(b)

Candy Chan		
Income statement for the year ended 31 December 2019		
	\$'000	\$'000
Sales (W2)		
Less: <u>Cost of goods sold</u>		
Opening inventory (vii)		
Add: Purchases (W1)		
Less: Closing inventory (W3)		
Gross profit		
Less: <u>Expenses</u>		
Administrative expenses (ii)		
Selling expenses (W4)		
Bank charges (ii)		
Cash loss (W5)		
Depreciation expenses (W6)		
Net profit		

Hint 1: item (i) means the sales figure is to be calculated based on the mark-up formula

$$\text{Cost of goods sold} \times (1 + \text{Mark-up \%}) = \text{Sales}^{**}$$

Hence, cost of goods sold should be worked out before calculating the sales figure.

Hint 2: $\text{Cost of goods sold} = \text{Opening inventory} + \text{Purchases}^* - \text{Closing inventory}$

Workings:

- *(W1) As all purchases were made on credit (iii), we can draw the trade payables account to calculate the figure of purchases

Trade payables			
	\$'000		\$'000
Cash at bank (ii)	<input type="text"/>	Balance b/d (vii)	<input type="text"/>
Balance c/d (iii)	<input type="text"/>	Purchases* (balancing figure)	<input type="text"/>
	1,025		1,025

** (W2) $\text{Sales} = \text{Cost of goods sold} \times (1 + \text{mark-up}\%)$

$$= (\$ \underline{\hspace{2cm}} + \$ \underline{\hspace{2cm}} - \$300,000) \times (1 + \underline{\hspace{2cm}} \%)$$

$$= \$ \underline{\hspace{2cm}}$$

When calculating sales figure, the inventory value used should be the original cost before the application of lower of cost and net realisable value.

- (W3) Apply lower of cost and net realisable value (NRV) to calculate the closing inventory (vi)

75% of closing inventory to be remained at cost

$$= \$ \underline{\hspace{2cm}} \times \underline{\hspace{2cm}} \% = \$ \underline{\hspace{2cm}}$$

25% of closing inventory to be valued at NRV as the NRV is lower than its cost

$$= \text{Estimated selling price} - \text{Estimated costs of completion and disposal}$$

$$= \$ \underline{\hspace{2cm}} - \$ \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

The value of closing inventory (75% + 25%)

$$= \$ \underline{\hspace{2cm}} + \$ \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

When applying lower of cost and net realisable value (NRV),

If $\text{NRV} > \text{Cost}$, inventory is valued at cost;

If $\text{Cost} > \text{NRV}$, inventory is valued at NRV.

(W4) Complete the selling expenses account to calculate the amount of selling expenses.

Selling expenses			
	\$'000		\$'000
Cash at bank (ii)	<input type="text"/>	Accrued b/d (vii)	<input type="text"/>
Cash in hand (iv)	<input type="text"/>	Profit and Loss (balancing figure)	<input type="text"/>
Accrued c/d (iv)	<input type="text"/>		
	<u>108</u>		<u>108</u>

(W5) As the insurance company had agreed to compensate the business for 40% of the cash stolen, only 60% of the cash stolen should be expensed in the income statement.

Cash loss expensed in the income statement:

$$= \$ \underline{\hspace{2cm}} \times \underline{\hspace{1cm}} \%$$

$$= \$ \underline{\hspace{2cm}}$$

(W6) Calculate the depreciation expenses, using straight line method (viii).

Hints:

Depreciation expenses =

Cost (vii) × % (viii) + Cost (ii) × % (viii) × number of month incurred ÷ 12

$$= \$ \underline{\hspace{2cm}} \times \underline{\hspace{1cm}} \% + \$ \underline{\hspace{2cm}} \times \underline{\hspace{1cm}} \% \times \underline{\hspace{1cm}} \text{ months} \div 12$$

$$= \$ \underline{\hspace{2cm}}$$

(c)

Candy Chan
Statement of financial position as at 31 December 2019

	\$'000	\$'000
<u>Non-current assets</u>		
Office equipment at cost (ii & vii) (\$ _____ + \$ _____)		
Less: Accumulated depreciation (W7)		
<u>Current assets</u>		
Inventory (W3)		
Insurance claim receivable (W8)		
Cash at bank (W9)		
<u>Capital</u>		
Balance as at 1 January 2019 (part a)		
Add: Net profit for the year (part b)		
Less: Drawings (ii)		
<u>Current liabilities</u>		
Trade payables (iii)		
Accrued selling expenses (iv)		

(W7) Accumulated depreciation as at 31 December 2019

= Beginning balance (vii) + depreciation expenses (W6)

= (\$ _____ - \$ _____) + \$ _____ = \$ _____



Cost - Net Book Value = Accumulated Depreciation

(W8) As the insurance company had agreed to compensate the business for 40% of the cash stolen, this amount should be classified as current assets which will be collected from the insurance company in the future.

\$ _____ × _____ % = \$ _____

(W9) Cash at bank balance as at 31 December 2019 = Balance b/d + all receipts – all payments

= \$ _____ + \$ _____ - \$(_____ + _____ + _____ +
 _____ + _____ + _____) = \$ _____

Graded Assignment 4 – Incomplete Records
 Elementary Level – Suggested Solution and Explanatory Notes
(For refined curriculum to be implemented at S4 in 2022/23 school year and onwards)

(a)

Candy Chan
 Statement of affairs as at 1 January 2019

	\$'000	\$'000
<u>Assets</u>		
Office equipment, net	180	
Inventory	130	
Cash at bank	450	
Cash in hand	12	772
	<hr/>	
<u>Less: Liabilities</u>		
Trade payables	110	
Accrued selling expenses	3	113
	<hr/>	
Capital (balancing figure)		<hr/> 659 <hr/>

(b)

Candy Chan
 Income statement for the year ended 31 December 2019

	\$'000	\$'000
Sales (W2)		1,192
Less: <u>Cost of goods sold</u>		
Opening inventory (vii)	130	
Add: Purchases (W1)	915	
	<hr/> 1,045	
Less: Closing inventory (W3)	279	766
	<hr/>	
Gross profit		426
Less: <u>Expenses</u>		
Administrative expenses (ii)	230	
Selling expenses (W4)	105	
Bank charges (ii)	5	
Cash loss (W5)	14.4	
Depreciation expenses (W6)	40	394.4
	<hr/>	
Net profit		<hr/> 31.6 <hr/>

Workings:
 (W1)

	\$'000		\$'000
Cash at bank (ii)	897	Balance b/d (vii)	110
Balance c/d (iii)	128	Purchases (balancing figure)	915
	<hr/> 1,025 <hr/>		<hr/> 1,025 <hr/>

(W2) Sales = Cost of goods sold \times (1 + mark-up)

$$= (\$130,000 + \$915,000 - \$300,000) \times (1 + 60\%) = \$1,192,000$$

(W3) 75% of closing inventory to be remained at cost
 $= \$300,000 \times 75\%$
 $= \underline{\underline{\$225,000}}$

25% of closing inventory to be valued at NRV as the NRV is lower than its cost
 $= \$58,000 - \$4,000 = \$54,000$

The value of closing inventory (75% + 25%) = $=(\$225,000 + \$54,000) = \underline{\underline{\$279,000}}$

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.

(W4)

Selling expenses			
	\$'000		\$'000
Cash at bank (ii)	54	Accrued b/d (vii)	3
Cash in hand (iv)	50	Profit and Loss	105
		(balancing figure)	
Accrued c/d (iv)	4		
	<u>108</u>		<u>108</u>

(W5) Cash loss expensed in the income statement:

$$= \$24,000 \times 60\%$$

$$= \$14,400$$

(W6) Depreciation expenses

$$= \$250,000 \times 15\% + \$100,000 \times 15\% \times 2 \text{ months} \div 12$$

$$= \$40,000$$

As no depreciation policy regarding full year depreciation on non-current assets is specified in the question, students are required to calculate depreciation in monthly basis for the new equipment which was acquired two months ago.

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000
<u>Non-current assets</u>		
Office equipment at cost (ii & vii) (\$100,000 + \$250,000)		350
Less: Accumulated depreciation (W7)		110
		<u>240</u>
<u>Current assets</u>		
Inventory (W3)	279	
Insurance claim receivable (W8)	9.6	
Cash at bank (W9)	209	497.6
		<u>737.6</u>
<u>Capital</u>		
Balance as at 1 January 2019 (part a)		659
Add: Net profit for the year (part b)		31.6
		<u>690.6</u>
Less: Drawings (ii)		85
		<u>605.6</u>
<u>Current liabilities</u>		
Trade payables (iii)	128	
Accrued selling expenses (iv)	4	132
		<u>737.6</u>

Drawings refer to assets taken away by the owner for personal use.

Alternative Format:

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000	\$'000
<u>Non-current assets</u>			
Office equipment at cost (ii & vii) (\$100,000 + \$250,000)			350
Less: Accumulated depreciation (W7)			110
			<u>240</u>
<u>Current assets</u>			
Inventory (W3)		279	
Insurance claim receivable (W8)		9.6	
Cash at bank (W9)		209	
		<u>497.6</u>	
Less: <u>Current liabilities</u>			
Trade payables (iii)	128		
Accrued selling expenses (iv)	4	132	
		<u>365.6</u>	
Working Capital			<u>605.6</u>
<u>Capital</u>			
Balance as at 1 January 2019 (part a)			659
Add: Net profit for the year (part b)			31.6
			<u>690.6</u>
Less: Drawings (ii)			85
			<u>605.6</u>

Drawings refer to assets taken away by the owner for personal use.

(W7) Accumulated depreciation as at 31 December 2019

$$= (\$250,000 - \$180,000) + \$40,000 = \$110,000$$

(W8) Insurance claim receivable

$$= \$24,000 \times 40\% = \$9,600$$

(W9) Cash at bank balance as at 31 December 2019 = Balance b/d + all receipts – all payments

$$\begin{aligned} &= \$450,000 + \$1,130,000 - (\$230,000 + \$54,000 + \$897,000 + \$5,000 + \$85,000 + \$100,000) \\ &= \$209,000 \end{aligned}$$

Points to be noted:

1. Important formula:
 - (a) Selling price = Cost \times (1 + mark-up)
 - (b) Net realisable value = estimated selling price – estimated costs of completion and disposal
2. The loss in value of closing inventory after applying the lower of cost and NRV would increase the cost of goods sold.
3. Cash stolen not being compensated is treated as an expense on the income statement.

Common mistakes

1. Fail to make use of mark-up formula to calculate the sales figure.
2. Mistakenly exclude sales commission in the calculation of selling expenses.
3. Mistakenly input the closing balances of assets and liabilities instead of opening balances in the statement of affairs.
4. Unable to calculate the value of closing inventory by applying the lower of cost and NRV.
5. Unable to calculate the cash loss.

Graded Assignment 4 – Incomplete Records
 Elementary Level – Question Paper
(For existing curriculum)

Candy Chan, the owner of a retail shop, who did not keep proper accounting records for her business. On 31 December 2019, her assistant disappeared suddenly and all cash in hand was stolen. After investigation, the following information was available:

- (i) All sales were made on cash basis at a uniform mark-up of 60% for the year 2019.
- (ii) A summary of receipts and payments in cash at bank account for the year ended 31 December 2019 was as follows:

<u>Receipts</u>	\$
Cash deposit	1,130,000
 <u>Payments</u>	 \$
Administrative expenses	230,000
Selling expenses	54,000
Payments to suppliers	897,000
Bank charges	5,000
Candy's personal expenses	85,000
Office equipment (purchased on 1 November 2019)	100,000

- (iii) All purchases were made on credit and the amount owing to suppliers as at 31 December 2019 was \$128,000.
- (iv) During 2019, selling expenses of \$50,000 were paid in cash and sales commission for December 2019 amounting to \$4,000 was to be paid on 5 January 2020.
- (v) The insurance company had agreed to compensate the business for 40% of the cash stolen.
- (vi) A physical inventory count showed that the cost of inventory on 31 December 2019 was \$300,000. It was found that 25% of the inventory was slightly damaged and could only be sold for \$58,000 after repair costing \$4,000.
- (vii) Balances of the business as at 31 December 2018 were as follows:

	\$
Office equipment, net (with a cost of \$250,000)	180,000
Inventory	130,000
Cash at bank	450,000
Trade payables	110,000
Accrued selling expenses	3,000
Cash in hand	12,000

- (viii) It is the company's policy to charge depreciation on office equipment at a rate of 15% per annum on a straight-line basis.

REQUIRED:

- (a) Prepare a statement of affairs as at 1 January 2019. (2 marks)
 - (b) Prepare an income statement for the year ended 31 December 2019, showing the cash loss separately. (12 marks)
 - (c) Prepare a statement of financial position as at 31 December 2019. (6 marks)
- (Total: 20 marks)

(a) Hint 1: A statement of affairs is a statement showing the accounting equation of a business including assets, liabilities and capital as at a certain date:

Hint 2: Pay attention to the date. Find out all the balances of Assets and Liabilities as at 1 Jan 2019 (or 31 Dec 2018), then calculate the Capital balance.

Elementary level: Page.15

(b)

Candy Chan
Income statement for the year ended 31 December 2019

	\$'000	\$'000
Sales (W2)		
Less: <u>Cost of goods sold</u>		
Opening inventory (vii)		
Add: Purchases (W1)		
Less: Closing inventory (W3)		
Gross profit		
Less: <u>Expenses</u>		
Administrative expenses (ii)		
Selling expenses (W4)		
Bank charges (ii)		
Cash loss (W5) (\$ _____ × _____ %)		
Depreciation expenses (W6)		
Net profit		

Hint 1: item (i) means the sales figure is to be calculated based on the mark-up formula

$$\text{Cost of goods sold} \times (1 + \text{Mark-up \%}) = \text{Sales}^{**}$$

Hence, cost of goods sold should be worked out before calculating the sales figure.

$$\text{Hint 2: Cost of goods sold} = \text{Opening inventory} + \text{Purchases}^* - \text{Closing inventory}$$

Workings:

- *(W1) As all purchases were made on credit (iii), we can draw the trade payables account to calculate the figure of purchases

Trade payables			
	\$'000		\$'000
Cash at bank (ii)	<input type="text"/>	Balance b/d (vii)	<input type="text"/>
Balance c/d (iii)	<input type="text"/>	Purchases* (balancing figure)	<input type="text"/>
	1,025		1,025

** (W2) $\text{Sales} = \text{Cost of goods sold} \times (1 + \text{mark-up}\%)$

$$= (\$ \underline{\hspace{2cm}} + \$ \underline{\hspace{2cm}} - \$300,000) \times (1 + \underline{\hspace{2cm}} \%)$$

$$= \$ \underline{\hspace{2cm}}$$

When calculating sales figure, the inventory value used should be the original cost before the application of lower of cost and net realisable value.

- (W3) Apply lower of cost and net realisable value (NRV) to calculate the closing inventory (vi)

75% of closing inventory to be remained at cost

$$= \$ \underline{\hspace{2cm}} \times \underline{\hspace{2cm}} \% = \$ \underline{\hspace{2cm}}$$

25% of closing inventory to be valued at NRV as the NRV is lower than its cost

$$= \text{Estimated selling price} - \text{Estimated costs of completion and disposal}$$

$$= \$ \underline{\hspace{2cm}} - \$ \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

The value of closing inventory (75% + 25%)

$$= \$ \underline{\hspace{2cm}} + \$ \underline{\hspace{2cm}} = \$ \underline{\hspace{2cm}}$$

When applying lower of cost and net realisable value (NRV),

If $\text{NRV} > \text{Cost}$, inventory is valued at cost;

If $\text{Cost} > \text{NRV}$, inventory is valued at NRV.

(W4) Complete the selling expenses account to calculate the amount of selling expenses.

Selling expenses			
	\$'000		\$'000
Cash at bank (ii)	<input type="text"/>	Accrued b/d (vii)	<input type="text"/>
Cash in hand (iv)	<input type="text"/>	Profit and Loss (balancing figure)	<input type="text"/>
Accrued c/d (iv)	<input type="text"/>		
	<u>108</u>		<u>108</u>

(W5) Complete the cash in hand account to calculate the amount of cash stolen by the assistant.

Cash in hand			
	\$'000		\$'000
Balance b/d (vii)	<input type="text"/>	Cash at bank (ii)	<input type="text"/>
Sales (W2)	<input type="text"/>	Selling expenses (iv)	<input type="text"/>
		Cash stolen (balancing figure)	<input type="text"/>
	<u>1,204</u>		<u>1,204</u>

As the insurance company had agreed to compensate the business for 40% of the cash stolen, only 60% of the cash stolen should be expensed in the income statement.

(W6) Calculate the depreciation expenses, using straight line method (viii).

Hints:

Depreciation expenses =

Cost (vii) × % (viii) + Cost (ii) × % (viii) × number of month incurred ÷ 12

= \$ _____ × _____ % + \$ _____ × _____ % × _____ months ÷ 12

= \$ _____

(c)

Candy Chan
Statement of financial position as at 31 December 2019

	\$'000	\$'000
<u>Non-current assets</u>		
Office equipment at cost (ii & vii) (\$ _____ + \$ _____)		
Less: Accumulated depreciation (W7)		_____
<u>Current assets</u>		
Inventory (W3)		
Insurance claim receivable (W8)		
Cash at bank (W9)		_____

<u>Capital</u>		
Balance as at 1 January 2019 (part a)		
Add: Net profit for the year (part b)		_____
Less: Drawings (ii)		_____
<u>Current liabilities</u>		
Trade payables (iii)		
Accrued selling expenses (iv)		_____

(W7) Accumulated depreciation as at 31 December 2019

= Beginning balance (vii) + depreciation expenses (W6)

= (\$ _____ - \$ _____) + \$ _____ = \$ _____



Cost - Net Book Value = Accumulated Depreciation

(W8) As the insurance company had agreed to compensate the business for 40% of the cash stolen (refer to Working 5), this amount should be classified as current assets which will be collected from the insurance company in the future.

\$ _____ × _____ % = \$ _____

(W9) Cash at bank balance as at 31 December 2019 = Balance b/d + all receipts – all payments

= \$ _____ + \$ _____ - \$(_____ + _____ + _____ +
 _____ + _____ + _____) = \$ _____

Graded Assignment 4 – Incomplete Records
 Elementary Level – Suggested Solution and Explanatory Notes
(For existing curriculum)

(a)

Candy Chan
 Statement of affairs as at 1 January 2019

	\$'000	\$'000
<u>Assets</u>		
Office equipment, net	180	
Inventory	130	
Cash at bank	450	
Cash in hand	12	772
	<hr/>	
<u>Less: Liabilities</u>		
Trade payables	110	
Accrued selling expenses	3	113
	<hr/>	
Capital (balancing figure)		<hr/> 659 <hr/>

(b)

Candy Chan
 Income statement for the year ended 31 December 2019

	\$'000	\$'000
Sales (W2)		1,192
Less: <u>Cost of goods sold</u>		
Opening inventory (vii)	130	
Add: Purchases (W1)	915	
	<hr/> 1,045	
Less: Closing inventory (W3)	279	766
	<hr/>	
Gross profit		426
Less: <u>Expenses</u>		
Administrative expenses (ii)	230	
Selling expenses (W4)	105	
Bank charges (ii)	5	
Cash loss (W5) ($\$24,000 \times 60\%$)	14.4	
Depreciation expenses (W6)	40	394.4
	<hr/>	
Net profit		<hr/> 31.6 <hr/>

Workings:
 (W1)

	\$'000		\$'000
Cash at bank (ii)	897	Balance b/d (vii)	110
Balance c/d (iii)	128	Purchases (balancing figure)	915
	<hr/> 1,025 <hr/>		<hr/> 1,025 <hr/>

(W2) Sales = Cost of goods sold \times (1 + mark-up)

$$= (\$130,000 + \$915,000 - \$300,000) \times (1 + 60\%) = \$1,192,000$$

(W3) 75% of closing inventory to be remained at cost

$$= \$300,000 \times 75\%$$

$$= \underline{\$225,000}$$

25% of closing inventory to be valued at NRV as the NRV is lower than its cost

$$= \$58,000 - \$4,000 = \$54,000$$

The value of closing inventory (75% + 25%) = $\$(225,000 + 54,000) = \underline{\$279,000}$

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.

(W4)

Selling expenses			
	\$'000		\$'000
Cash at bank (ii)	54	Accrued b/d (vii)	3
Cash in hand (iv)	50	Profit and Loss	105
		(balancing figure)	
Accrued c/d (iv)	4		
	<u>108</u>		<u>108</u>

(W5)

Cash in hand			
	\$'000		\$'000
Balance b/d (vii)	12	Cash at bank (ii)	1,130
Sales (W2)	1,192	Selling expenses (iv)	50
		Cash stolen	24
		(balancing figure)	
	<u>1,204</u>		<u>1,204</u>

(W6) Depreciation expenses

$$= \$250,000 \times 15\% + \$100,000 \times 15\% \times 2 \text{ months} \div 12$$

$$= \$40,000$$

As no depreciation policy regarding full year depreciation on non-current assets is specified in the question, students are required to calculate depreciation in monthly basis for the new equipment which was acquired two months ago.

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000
<u>Non-current assets</u>		
Office equipment at cost (ii & vii) (\$100,000 + \$250,000)		350
Less: Accumulated depreciation (W7)		110
		<u>240</u>
<u>Current assets</u>		
Inventory (W3)	279	
Insurance claim receivable (W8)	9.6	
Cash at bank (W9)	209	497.6
		<u>737.6</u>
<u>Capital</u>		
Balance as at 1 January 2019 (part a)		659
Add: Net profit for the year (part b)		31.6
		<u>690.6</u>
Less: Drawings (ii)		85
		<u>605.6</u>
<u>Current liabilities</u>		
Trade payables (iii)	128	
Accrued selling expenses (iv)	4	132
		<u>737.6</u>

Drawings refer to assets taken away by the owner for personal use.

Alternative Format:

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000	\$'000
<u>Non-current assets</u>			
Office equipment at cost (ii & vii) (\$100,000 + \$250,000)			350
Less: Accumulated depreciation (W7)			110
			<u>240</u>
<u>Current assets</u>			
Inventory (W3)		279	
Insurance claim receivable (W8)		9.6	
Cash at bank (W9)		209	497.6
			<u>497.6</u>
Less: <u>Current liabilities</u>			
Trade payables (iii)	128		
Accrued selling expenses (iv)	4	132	
			<u>365.6</u>
<u>Working Capital</u>			<u>605.6</u>
<u>Capital</u>			
Balance as at 1 January 2019 (part a)			659
Add: Net profit for the year (part b)			31.6
			<u>690.6</u>
Less: Drawings (ii)			85
			<u>605.6</u>

Drawings refer to assets taken away by the owner for personal use.

(W7) Accumulated depreciation as at 31 December 2019

$$= (\$250,000 - \$180,000) + \$40,000 = \$110,000$$

(W8) Insurance claim receivable

$$= \$24,000 \times 40\% = \$9,600$$

(W9) Cash at bank balance as at 31 December 2019 = Balance b/d + all receipts – all payments

$$= \$450,000 + \$1,130,000 - (\$230,000 + \$54,000 + \$897,000 + \$5,000 + \$85,000 + \$100,000)$$

$$= \$209,000$$

Points to be noted:

1. Important formula:
 - (a) Selling price = Cost \times (1 + mark-up)
 - (b) Net realisable value = estimated selling price – estimated costs of completion and disposal
2. The loss in value of closing inventory after applying the lower of cost and NRV would increase the cost of goods sold.
3. Cash loss not being compensated is treated as an expense on the income statement.

Common mistakes

1. Fail to make use of mark-up formula to calculate the sales figure.
2. Mistakenly exclude sales commission in the calculation of selling expenses.
3. Mistakenly input the closing balances of assets and liabilities instead of opening balances in the statement of affairs.
4. Unable to calculate the value of closing inventory by applying the lower of cost and NRV.
5. Unable to calculate the cash loss.

Graded Assignment 4 – Incomplete Records
Standard Level – Question Paper

(For refined curriculum to be implemented at S4 in 2022/23 school year and onwards)

Candy Chan, the owner of a retail shop, who did not keep proper accounting records for her business. On 31 December 2019, her assistant disappeared suddenly and all cash in hand amounted to \$24,000 was stolen. After investigation, the following information was available:

- (i) All sales were made on cash basis at a uniform mark-up of 60% for the year 2019.
- (ii) A summary of receipts and payments in cash at bank account for the year ended 31 December 2019 was as follows:

<u>Receipts</u>	\$
Cash deposit	1,130,000
 <u>Payments</u>	 \$
Administrative expenses	230,000
Selling expenses	54,000
Payments to suppliers	897,000
Bank charges	5,000
Candy's personal expenses	85,000
Office equipment (purchased on 1 November 2019)	100,000

- (iii) All purchases were made on credit and the amount owing to suppliers as at 31 December 2019 was \$128,000.
- (iv) During 2019, selling expenses of \$50,000 were paid in cash and sales commission for December 2019 amounting to \$4,000 was to be paid on 5 January 2020.
- (v) The insurance company had agreed to compensate the business for 40% of the cash stolen.
- (vi) A physical inventory count showed that the cost of inventory on 31 December 2019 was \$300,000. It was found that 25% of the inventory was slightly damaged and could only be sold for \$58,000 after repair costing \$4,000.
- (vii) Balances of the business as at 31 December 2018 were as follows:

	\$
Office equipment, net (with a cost of \$250,000)	180,000
Inventory	130,000
Cash at bank	450,000
Trade payables	110,000
Accrued selling expenses	3,000
Cash in hand	12,000

- (viii) It is the company's policy to charge depreciation on office equipment at a rate of 15% per annum on a straight-line basis.

REQUIRED:

- (a) Prepare a statement of affairs as at 1 January 2019. (2 marks)
 - (b) Prepare an income statement for the year ended 31 December 2019 showing the cash loss separately. (11 marks)
 - (c) Prepare a statement of financial position as at 31 December 2019. (6 marks)
- (Total: 19 marks)

Graded Assignment 4 – Incomplete Records
Standard Level – Student Worksheet

(For refined curriculum to be implemented at S4 in 2022/23 school year and onwards)

- (a) **Hint: State all opening balances of assets and liabilities in the statement of affairs to compute the opening capital balance.**

Accounting equation = _____ - _____ = _____

Candy Chan

Statement of affairs as at 1 January 2019

	\$'000	\$'000
--	--------	--------

Capital (balancing figure)

- (b) **Hint: Dig out the important clues given in the question for preparation of income statement.**

	<u>Clues</u>	<u>Useful tools to be involved</u>
(i)	<ul style="list-style-type: none"> • All sales were cash sales • Mark-up 60% 	Formula: $\text{Cost} \times (1 + \text{mark-up}) = \text{Selling price}$
(ii)	<ul style="list-style-type: none"> • Summary of Cash at bank account • Items to be input in trade payables account • Items to be input in selling expenses account • Expenses items on Income Statement • Newly acquired office equipment to be depreciated (viii) 	1. Trade payables account 2. Selling expenses account

(iii)	<ul style="list-style-type: none"> • All purchases were made on credit • Closing balance of trade payables account 	Trade payables account for finding purchases
(iv)	<ul style="list-style-type: none"> • Items to be input in selling expenses account • Closing accrual balance in the selling expenses account 	Selling expenses account for finding the amount to be recorded on Income Statement
(v)	<ul style="list-style-type: none"> • As the insurance company had agreed to compensate the business for 40% of the cash stolen, only 60% of the cash stolen should be expensed on the Income Statement 	
(vi)	<ul style="list-style-type: none"> • Closing inventory value with adjustment on the 25% of inventory. • Lower of cost and net realisable value (NRV) should be applied on the 25% of inventory 	NRV = Estimated selling price - Estimated costs of completion and disposal
(vii)	<ul style="list-style-type: none"> • Opening balances of various accounts 	1. Cost of goods sold = Opening inventory + Purchases - Closing inventory 2. Trade payables account 3. Selling expenses account
(viii)	<ul style="list-style-type: none"> • Depreciation method and depreciation rate • As no policy on yearly calculation was stated, the depreciation on new equipment should be calculated in monthly basis 	Depreciation under straight-line method = (Cost - Residual value) × %

(b) Candy Chan

Income statement for the year ended 31 December 2019

	\$'000	\$'000
Sales		
[($\$$ _____ + $\$$ _____ - $\$$ _____) \times (1 + _____ %)]		
Less: <u>Cost of goods sold</u>		
Add: Purchases (W1)		_____
Less: Closing inventory		
[\$ _____ \times 75% + ($\$$ _____ - $\$$ _____)]		_____
Less: <u>Expenses</u>		
Selling expenses (W2)		
Cash loss ($\$$ _____ \times _____ %)		
Depreciation expenses		
[($\$$ _____ \times _____ %) + ($\$$ _____ \times _____ % \times _____ \div 12)]		_____

(W1)

(W2)

Standard level: Page.6

- (c) **Hint: Dig out the important clues given in the question for preparation of the statement of financial position.**

	<u>Clues</u>
(ii)	<ul style="list-style-type: none"> • Summary of Cash at bank account • Cash at bank balance as at 31 December 2019 = Bal b/d (vii) + all receipts - all payments • Cost of newly acquired office equipment should be recorded in the part of non-current assets
(iii)	<ul style="list-style-type: none"> • Closing balance of trade payables account
(iv)	<ul style="list-style-type: none"> • Closing accrual balance of the selling expenses account
(v)	<ul style="list-style-type: none"> • As the insurance company had agreed to compensate the business for 40% of the cash stolen, this amount should be classified as current assets which will be collected from the insurance company in the future
(vi)	<ul style="list-style-type: none"> • Closing inventory value with adjustment on the 25% of inventory • Lower of cost and net realisable value (NRV) should be applied on the 25% of inventory
(vii)	<ul style="list-style-type: none"> • Calculate the opening balance of accumulated depreciation account as follows: Cost - Net book value = Accumulated depreciation

	\$'000	\$'000
<u>Non-current assets</u>		
Office equipment at cost (\$_____ + \$_____)		
Less: Accumulated depreciation		
[(\$_____ - \$_____) + \$_____]		

Current assets

Insurance claim receivable (\$_____ × _____ %)

Cash at bank \$[_____ + _____ -

(_____ + _____ + _____ +

_____ + _____ + _____)]

=====

Capital**Current liabilities**

=====

Graded Assignment 4 – Incomplete Records
 Standard Level – Suggested Solution and Explanatory Notes
(For refined curriculum to be implemented at S4 in 2022/23 school year and onwards)

(a)

Candy Chan
 Statement of affairs as at 1 January 2019

	\$'000	\$'000
<u>Assets</u>		
Office equipment, net	180	
Inventory	130	
Cash at bank	450	
Cash in hand	12	772
	<hr/>	
<u>Less: Liabilities</u>		
Trade payables	110	
Accrued selling expenses	3	113
	<hr/>	
Capital (balancing figure)		<hr/> 659

(b)

Candy Chan
 Income statement for the year ended 31 December 2019

	\$'000	\$'000
Sales $[(\$130,000 + \$915,000 - \$300,000) \times (1+60\%)]$		1,192
Less: <u>Cost of goods sold</u>		
Opening inventory	130	
Add: Purchases (W1)	915	
	<hr/> 1,045	
Less: Closing inventory	279	766
$[\$300,000 \times 75\% + (\$58,000 - \$4,000)]$		
	<hr/>	
Gross profit		426
Less: <u>Expenses</u>		
Administrative expenses	230	
Selling expenses (W2)	105	
Bank charges	5	
Cash loss $(\$24,000 \times 60\%)$	14.4	
Depreciation expenses	40	394.4
$[(\$250,000 \times 15\%) + (\$100,000 \times 15\% \times 2 \div 12)]$		
	<hr/>	
Net profit		<hr/> 31.6

Workings:

(W1) **As all purchases were made on credit, trade payables account was used to deduce the figure of Purchases.**

Trade payables			
	\$'000		\$'000
Cash at bank (ii)	897	Balance b/d (vii)	110
Balance c/d (iii)	128	Purchases (balancing figure)	915
	<hr/> 1,025		<hr/> 1,025

- (W2) According to accrual concept, all revenues and expenses should be recognised when they are earned or incurred. Therefore, adjustments had to be made in the selling expenses account for the accrual figures (e.g. \$4,000 sales commission incurred in December 2019 but not yet paid)

Selling expenses			
	\$'000		\$'000
Cash at bank (ii)	54	Accrued b/d (vii)	3
Cash in hand (iv)	50	Profit and Loss	105
		(balancing figure)	
Accrued c/d (iv)	4		
	<u>108</u>		<u>108</u>

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000
<u>Non-current assets</u>		
Office equipment at cost (\$100,000 + \$250,000)		350
Less: Accumulated depreciation (\$250,000 - \$180,000 + \$40,000)		<u>110</u>
		240
<u>Current assets</u>		
Inventory*	279	
Insurance claim receivable (\$24,000 × 40%)	9.6	
Cash at bank \$[450,000 + 1,130,000 - (230,000 + 54,000 + 897,000 + 5,000 + 85,000 + 100,000)]	209	497.6
		<u>737.6</u>
<u>Capital</u>		
Balance as at 1 January 2019 (part a)		659
Add: Net profit for the year (part b)		<u>31.6</u>
		690.6
Less: Drawings (ii)		<u>85</u>
		605.6
<u>Current liabilities</u>		
Trade payables (iii)	128	
Accrued selling expenses (iv)	<u>4</u>	132
		<u>737.6</u>

* 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 and no adjusting entry is needed;

If $Cost > NRV$, inventory is valued at NRV and its value should be written down as follows:

Dr Profit and loss

Cr Inventory

Valuation of closing inventory

75% of closing inventory to be remained at cost

= $\$300,000 \times 75\%$

= $\$225,000$

25% of closing inventory that applying lower of cost and net realisable value (NRV)

(a) Valued at cost

= $\$300,000 \times 25\%$

= $\$75,000$

(b) Valued at NRV

= Estimated selling price – Estimated costs of completion and disposal

= $\$(58,000 - 4,000)$

= $\$54,000$

As the NRV is lower than the cost, the 25% of inventory should be valued at $\$54,000$

The value of closing inventory $(75\% + 25\%) = \$(225,000 + 54,000) = \underline{\underline{\$279,000}}$

Alternative Format:

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000	\$'000
<u>Non-current assets</u>			
Office equipment at cost $(\$100,000 + \$250,000)$			350
Less: Accumulated depreciation			110
$(\$250,000 - \$180,000 + \$40,000)$			<u>240</u>
<u>Current assets</u>			
Inventory		279	
Insurance claim receivable $(\$24,000 \times 40\%)$		9.6	
Cash at bank $[\$450,000 + 1,130,000 - (230,000 + 54,000 + 897,000 + 5,000 + 85,000 + 100,000)]$		209	
		<u>497.6</u>	
Less: <u>Current liabilities</u>			
Trade payables (iii)	128		
Accrued selling expenses (iv)	<u>4</u>	<u>132</u>	
Working Capital			<u>365.6</u>

	<u>605.6</u>
<u>Capital</u>	
Balance as at 1 January 2019 (part a)	659
Add: Net profit for the year (part b)	<u>31.6</u>
	690.6
Less: Drawings (ii)	<u>85</u>
	<u>605.6</u>

Points to be noted:

1. A statement of affairs is a statement showing the accounting equation of a business including assets, liabilities and capital as at a certain date
2. Cash stolen not being compensated is treated as an expense on the income statement while the portion of cash stolen to be compensated by insurance company should be treated as current assets on the statement of financial position. The double entry is as follows:

<i>Dr</i>	<i>Profit and loss (amount not being compensated)</i>
<i>Dr</i>	<i>Insurance claim receivable (amount to be compensated)</i>
<i>Cr</i>	<i>Cash in hand (total amount of cash stolen)</i>

3. It is required to state the accurate statement title provided in the question (For example, statement of financial position should be stated instead of balance sheet in the answer.)

Common mistakes

1. Mistakenly calculate yearly depreciation on the newly acquired equipment.
2. Mistakenly adopt the adjusted inventory value in the calculation of sales figure.
3. Wrongly record the total amount of cash stolen on the income statement instead of the amount not being compensated.
4. Fail to adjust the selling expenses from cash basis to accrual basis.

Graded Assignment 4 – Incomplete Records
Standard Level – Question Paper
(For existing curriculum)

Candy Chan, the owner of a retail shop, who did not keep proper accounting records for her business. On 31 December 2019, her assistant disappeared suddenly and all cash in hand was stolen. After investigation, the following information was available:

- (i) All sales were made on cash basis at a uniform mark-up of 60% for the year 2019.
- (ii) A summary of receipts and payments in cash at bank account for the year ended 31 December 2019 was as follows:

<u>Receipts</u>	\$
Cash deposit	1,130,000
 <u>Payments</u>	 \$
Administrative expenses	230,000
Selling expenses	54,000
Payments to suppliers	897,000
Bank charges	5,000
Candy's personal expenses	85,000
Office equipment (purchased on 1 November 2019)	100,000

- (iii) All purchases were made on credit and the amount owing to suppliers as at 31 December 2019 was \$128,000.
- (iv) During 2019, selling expenses of \$50,000 were paid in cash and sales commission for December 2019 amounting to \$4,000 was to be paid on 5 January 2020.
- (v) The insurance company had agreed to compensate the business for 40% of the cash stolen.
- (vi) A physical inventory count showed that the cost of inventory on 31 December 2019 was \$300,000. It was found that 25% of the inventory was slightly damaged and could only be sold for \$58,000 after repair costing \$4,000.
- (vii) Balances of the business as at 31 December 2018 were as follows:

	\$
Office equipment, net (with a cost of \$250,000)	180,000
Inventory	130,000
Cash at bank	450,000
Trade payables	110,000
Accrued selling expenses	3,000
Cash in hand	12,000

- (viii) It is the company's policy to charge depreciation on office equipment at a rate of 15% per annum on a straight-line basis.

REQUIRED:

- (a) Prepare a statement of affairs as at 1 January 2019. (2 marks)
 - (b) Prepare an income statement for the year ended 31 December 2019 showing the cash loss separately. (12 marks)
 - (c) Prepare a statement of financial position as at 31 December 2019. (6 marks)
- (Total: 20 marks)

Graded Assignment 4 – Incomplete Records
Standard Level – Student Worksheet
(For existing curriculum)

- (a) **Hint: State all opening balances of assets and liabilities in the statement of affairs to compute the opening capital balance.**

Accounting equation = _____ - _____ = _____

Candy Chan		
Statement of affairs as at 1 January 2019		
	\$'000	\$'000

Capital (balancing figure)

- (b) **Hint: Dig out the important clues given in the question for preparation of income statement.**

	<u>Clues</u>	<u>Useful tools to be involved</u>
Introduction	<ul style="list-style-type: none"> All cash in hand was stolen 	Cash in hand account for finding cash stolen
(i)	<ul style="list-style-type: none"> All sales were cash sales Mark-up 60% 	1. Cash in hand account 2. Formula: $\text{Cost} \times (1 + \text{mark-up}) = \text{Selling price}$
(ii)	<ul style="list-style-type: none"> Summary of Cash at bank account Items to be input in cash in hand account Items to be input in trade payables account 	1. Cash in hand account 2. Trade payables account 3. Selling expenses account

	<ul style="list-style-type: none"> • Items to be input in selling expenses account • Expenses items on Income Statement • Newly acquired office equipment to be depreciated (viii) 	
(iii)	<ul style="list-style-type: none"> • All purchases were made on credit • Closing balance of trade payables account 	Trade payables account for finding purchases
(iv)	<ul style="list-style-type: none"> • Items to be input in selling expenses account • Closing accrual balance in the selling expenses account 	Selling expenses account for finding the amount to be recorded on Income Statement
(v)	<ul style="list-style-type: none"> • As the insurance company had agreed to compensate the business for 40% of the cash stolen, only 60% of the cash stolen should be expensed on the Income Statement 	
(vi)	<ul style="list-style-type: none"> • Closing inventory value with adjustment on the 25% of inventory. • Lower of cost and net realisable value (NRV) should be applied on the 25% of inventory 	NRV = Estimated selling price - Estimated costs of completion and disposal
(vii)	<ul style="list-style-type: none"> • Opening balances of various accounts 	1. Cost of goods sold = Opening inventory + Purchases - Closing inventory 2. Trade payables account 3. Selling expenses account 4. Cash in hand account
(viii)	<ul style="list-style-type: none"> • Depreciation method and depreciation rate • As no policy on yearly calculation was stated, the depreciation on new equipment should be calculated in monthly basis 	Depreciation under straight-line method = $(\text{Cost} - \text{Residual value}) \times \%$

(b) Candy Chan

Income statement for the year ended 31 December 2019

	\$'000	\$'000
Sales		
[($\$$ _____ + $\$$ _____ - $\$$ _____) \times (1 + _____ %)]		
Less: <u>Cost of goods sold</u>		
Add: Purchases (W1)		_____
Less: Closing inventory		
[$\$$ _____ \times 75% + ($\$$ _____ - $\$$ _____)]		_____
Less: <u>Expenses</u>		
Selling expenses (W2)		
Cash loss [$\$$ _____ (W3) \times _____ %]		
Depreciation expenses		
[($\$$ _____ \times _____ %) + ($\$$ _____ \times _____ % \times _____ \div 12)]		_____

Identify the target missing item (i.e. balancing figure) to be found in each account

(W1)

Trade payables	
\$'000	\$'000
	Purchases (balancing figure)

(W2)

Selling expenses	
\$'000	\$'000
	Profit and Loss (balancing figure)

(W3)

Cash in hand	
\$'000	\$'000
	Cash stolen (balancing figure)

- (c) **Hint: Dig out the important clues given in the question for preparation of the statement of financial position.**

	<u>Clues</u>
(ii)	<ul style="list-style-type: none"> • Summary of Cash at bank account • Cash at bank balance as at 31 December 2019 = Bal b/d (vii) + all receipts - all payments • Cost of newly acquired office equipment should be recorded in the part of non-current assets
(iii)	<ul style="list-style-type: none"> • Closing balance of trade payables account
(iv)	<ul style="list-style-type: none"> • Closing accrual balance of the selling expenses account
(v)	<ul style="list-style-type: none"> • As the insurance company had agreed to compensate the business for 40% of the cash stolen, this amount should be classified as current assets which will be collected from the insurance company in the future
(vi)	<ul style="list-style-type: none"> • Closing inventory value with adjustment on the 25% of inventory • Lower of cost and net realisable value (NRV) should be applied on the 25% of inventory
(vii)	<ul style="list-style-type: none"> • Calculate the opening balance of accumulated depreciation account as follows: Cost - Net book value = Accumulated depreciation

	\$'000	\$'000
<u>Non-current assets</u>		
Office equipment at cost (\$_____ + \$_____)		
Less: Accumulated depreciation		
[(\$_____ - \$_____) + \$_____]		

Current assets

Insurance claim receivable (\$_____ × _____ %)

Cash at bank \$[_____ + _____ -

(_____ + _____ + _____ +

_____ + _____ + _____)]

=====

Capital**Current liabilities**

=====

Graded Assignment 4 – Incomplete Records
Standard Level – Suggested Solution and Explanatory Notes
(For existing curriculum)

(a)

Candy Chan
Statement of affairs as at 1 January 2019

	\$'000	\$'000
<u>Assets</u>		
Office equipment, net	180	
Inventory	130	
Cash at bank	450	
Cash in hand	12	772
	<hr/>	
<u>Less: Liabilities</u>		
Trade payables	110	
Accrued selling expenses	3	113
	<hr/>	
Capital (balancing figure)		<hr/> 659

(b)

Candy Chan
Income statement for the year ended 31 December 2019

	\$'000	\$'000
Sales $[(\$130,000 + \$915,000 - \$300,000) \times (1+60\%)]$		1,192
Less: <u>Cost of goods sold</u>		
Opening inventory	130	
Add: Purchases (W1)	915	
	<hr/> 1,045	
Less: Closing inventory	279	766
$[\$300,000 \times 75\% + (\$58,000 - \$4,000)]$		
	<hr/>	
Gross profit		426
Less: <u>Expenses</u>		
Administrative expenses	230	
Selling expenses (W2)	105	
Bank charges	5	
Cash loss (W3) $(\$24,000 \times 60\%)$	14.4	
Depreciation expenses	40	394.4
$[(\$250,000 \times 15\%) + (\$100,000 \times 15\% \times 2 \div 12)]$		
	<hr/>	
Net profit		<hr/> 31.6

Workings:

(W1) **As all purchases were made on credit, trade payables account was used to deduce the figure of Purchases.**

Trade payables			
	\$'000		\$'000
Cash at bank (ii)	897	Balance b/d (vii)	110
Balance c/d (iii)	128	Purchases (balancing figure)	915
	<hr/> 1,025		<hr/> 1,025

- (W2) According to accrual concept, all revenues and expenses should be recognised when they are earned or incurred. Therefore, adjustments had to be made in the selling expenses account for the accrual figures (e.g. \$4,000 sales commission incurred in December 2019 but not yet paid)

Selling expenses			
	\$'000		\$'000
Cash at bank (ii)	54	Accrued b/d (vii)	3
Cash in hand (iv)	50	Profit and Loss	105
		(balancing figure)	
Accrued c/d (iv)	4		
	<u>108</u>		<u>108</u>

- (W3) Complete the cash in hand account in order to calculate the amount of cash stolen by the assistant. As all the cash in hand was stolen, no closing balance remained in the account.

Cash in hand			
	\$'000		\$'000
Balance b/d (vii)	12	Cash at bank (ii)	1,130
Sales	1,192	Selling expenses (iv)	50
		Cash stolen	24
		(balancing figure)	
	<u>1,204</u>		<u>1,204</u>

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000
<u>Non-current assets</u>		
Office equipment at cost (\$100,000 + \$250,000)		350
Less: Accumulated depreciation (\$250,000 - \$180,000 + \$40,000)		<u>110</u>
		240
<u>Current assets</u>		
Inventory*	279	
Insurance claim receivable (\$24,000 × 40%)	9.6	
Cash at bank \$[450,000 + 1,130,000 – (230,000 + 54,000 + 897,000 + 5,000 + 85,000 + 100,000)]	209	497.6
		<u>737.6</u>
<u>Capital</u>		
Balance as at 1 January 2019 (part a)		659
Add: Net profit for the year (part b)		<u>31.6</u>
		690.6
Less: Drawings (ii)		<u>85</u>
		605.6

Current liabilities

Trade payables (iii)	128	
Accrued selling expenses (iv)	4	132
		<u>737.6</u>

* 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 and no adjusting entry is needed;

If $Cost > NRV$, inventory is valued at NRV and its value should be written down as follows:

Dr Profit and loss

Cr Inventory

Valuation of closing inventory

75% of closing inventory to be remained at cost
 = $\$300,000 \times 75\%$
 = $\$225,000$

25% of closing inventory that applying lower of cost and net realisable value (NRV)

(a) Valued at cost	(b) Valued at NRV
= $\$300,000 \times 25\%$	= Estimated selling price – Estimated costs of completion and disposal
= $\$75,000$	= $\$(58,000 - 4,000)$
	= $\$54,000$

As the NRV is lower than the cost, the 25% of inventory should be valued at $\$54,000$

The value of closing inventory (75% + 25%) = $\$(225,000 + 54,000)$ = $\$279,000$

Alternative Format:

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000	\$'000
<u>Non-current assets</u>			
Office equipment at cost ($\$100,000 + \$250,000$)			350
Less: Accumulated depreciation			110
($\$250,000 - \$180,000 + \$40,000$)			<u>240</u>
<u>Current assets</u>			
Inventory		279	
Insurance claim receivable ($\$24,000 \times 40\%$)		9.6	
Cash at bank [$\$450,000 + 1,130,000 - (230,000 + 54,000 + 897,000 + 5,000 + 85,000 + 100,000)$]		209	
		<u>497.6</u>	

Less: <u>Current liabilities</u>		
Trade payables (iii)	128	
Accrued selling expenses (iv)	4	132
Working Capital		<u>365.6</u>
		<u>605.6</u>
<u>Capital</u>		
Balance as at 1 January 2019 (part a)		659
Add: Net profit for the year (part b)		<u>31.6</u>
		690.6
Less: Drawings (ii)		<u>85</u>
		<u>605.6</u>

Points to be noted:

1. A statement of affairs is a statement showing the accounting equation of a business including assets, liabilities and capital as at a certain date
2. Cash loss not being compensated is treated as an expense on the income statement while the portion of loss to be compensated by insurance company should be treated as current assets on the statement of financial position. The double entry is as follows:

<i>Dr</i>	<i>Profit and loss (amount not being compensated)</i>
<i>Dr</i>	<i>Insurance claim receivable (amount to be compensated)</i>
<i>Cr</i>	<i>Cash in hand (total amount of cash stolen)</i>

3. It is required to state the accurate statement title provided in the question (For example, statement of financial position should be stated instead of balance sheet in the answer.)

Common mistakes

1. Mistakenly calculate yearly depreciation on the newly acquired equipment.
2. Mistakenly adopt the adjusted inventory value in the calculation of sales figure.
3. Wrongly record the total amount of cash stolen on the income statement instead of the amount not being compensated.
4. Fail to adjust the selling expenses from cash basis to accrual basis.

Graded Assignment 4 – Incomplete Records
Advanced Level – Question Paper

(For refined curriculum to be implemented at S4 in 2022/23 school year and onwards)

Candy Chan, the owner of a retail shop, who did not keep proper accounting records for her business. On 31 December 2019, her assistant disappeared suddenly and all cash in hand amounted to \$24,000 was stolen. After investigation, the following information was available:

- (i) All sales were made on cash basis at a uniform mark-up of 60% for the year 2019.
- (ii) A summary of receipts and payments in cash at bank account for the year ended 31 December 2019 was as follows:

<u>Receipts</u>	\$
Cash deposit	1,130,000
 <u>Payments</u>	 \$
Administrative expenses	230,000
Selling expenses	54,000
Payments to suppliers	897,000
Bank charges	5,000
Candy's personal expenses	85,000
Office equipment (purchased on 1 November 2019)	100,000

- (iii) All purchases were made on credit and the amount owing to suppliers as at 31 December 2019 was \$128,000.
- (iv) During 2019, selling expenses of \$50,000 were paid in cash and sales commission for December 2019 amounting to \$4,000 was to be paid on 5 January 2020.
- (v) The insurance company had agreed to compensate the business for 40% of the cash stolen.
- (vi) A physical inventory count showed that the cost of inventory on 31 December 2019 was \$300,000. It was found that 25% of the inventory was slightly damaged and could only be sold for \$58,000 after repair costing \$4,000.
- (vii) Balances of the business as at 31 December 2018 were as follows:

	\$
Office equipment, net (with a cost of \$250,000)	180,000
Inventory	130,000
Cash at bank	450,000
Trade payables	110,000
Accrued selling expenses	3,000
Cash in hand	12,000

- (viii) It is the company's policy to charge depreciation on office equipment at a rate of 15% per annum on a straight-line basis.

REQUIRED:

- (a) Prepare a statement of affairs as at 1 January 2019. (2 marks)
 - (b) Prepare an income statement for the year ended 31 December 2019 showing the cash loss separately. (11 marks)
 - (c) Prepare a statement of financial position as at 31 December 2019. (6 marks)
- (Total: 19 marks)

Challenging question

Consider the following two cases:

- (1) Some damaged goods had been included in the ending inventory at their cost of \$5,000. If spending \$300 on repairing them, they could be sold at \$5,200.
- (2) During the year, there was a fire in the warehouse and inventory costing \$8,000 was destroyed.

REQUIRED:

- (d) Identify the type of losses for the above cases and explain briefly with reasons and accounting treatments.

(Total: 5 marks)

Graded Assignment 4 – Incomplete Records

Advanced Level – Student Worksheet

(For refined curriculum to be implemented at S4 in 2022/23 school year and onwards)

(a)

(b)

(c)

Challenging question

(d)

Graded Assignment 4 – Incomplete Records
 Advanced Level – Suggested Solution and Explanatory Notes
(For refined curriculum to be implemented at S4 in 2022/23 school year and onwards)

(a)

Candy Chan
 Statement of affairs as at 1 January 2019

	\$'000	\$'000
Assets		
Office equipment, net	180	
Inventory	130	
Cash at bank	450	
Cash in hand	12	772
	<hr/>	
Less: Liabilities		
Trade payables	110	
Accrued selling expenses	3	113
	<hr/>	
Capital (balancing figure)		<hr/> <hr/> 659

(b)

Candy Chan
 Income statement for the year ended 31 December 2019

	\$'000	\$'000
Sales (\$745,000 (W2) × 160%)		1,192
Less: <u>Cost of goods sold</u>		
Opening inventory	130	
Add: Purchases (W1)	915	
	<hr/>	
	1,045	
Less: Closing inventory (W3)	279	766
	<hr/>	
Gross profit		426
Less: <u>Expenses</u>		
Administrative expenses	230	
Selling expenses (W4)	105	
Bank charges	5	
Cash loss (\$24,000 × 60%)	14.4	
Depreciation expenses (W5)	40	394.4
	<hr/>	
Net profit		<hr/> <hr/> 31.6

Workings:

(W1) Complete the trade payables account in order to calculate the amount of purchases

Trade payables			
	\$'000		\$'000
Cash at bank (ii)	897	Balance b/d (vii)	110
Balance c/d (iii)	128	Purchases (balancing figure)	915
	<hr/>		
	1,025		<hr/> <hr/> 1,025

(W2) Calculate the cost of goods sold before applying lower of cost and net realisable value
 = Opening inventory + Purchases – Closing inventory

$$= \$ (130,000 + 915,000 - 300,000)$$

$$= \underline{\$745,000}$$

(W3) Calculate the closing inventory after applying lower of cost and net realisable value (NRV)

(i) 75% of closing inventory to be remained at cost

$$= \$300,000 \times 75\%$$

$$= \underline{\$225,000}$$

(ii) 25% of closing inventory that applying lower of cost and net realisable value

(a) Valued at cost

$$= \$300,000 \times 25\%$$

$$= \$75,000$$

(b) Valued at NRV

$$= \text{Estimated selling price} - \text{Estimated costs of completion and disposal}$$

$$= \$ (58,000 - 4,000)$$

$$= \$54,000$$

As the NRV is lower than the cost, the 25% of inventory should be valued at \$54,000

The value of closing inventory (75% + 25%) = $\$ (225,000 + 54,000) = \underline{\$279,000}$

(W4) Complete the selling expenses account in order to calculate the amount of selling expenses to be recorded on income statement

Selling expenses			
	\$'000		\$'000
Cash at bank (ii)	54	Accrued b/d (vii)	3
Cash in hand (iv)	50	Profit and Loss (balancing figure)	105
Accrued c/d (iv)	4		
	<u>108</u>		<u>108</u>

(W5) Calculate the depreciation expenses

= Depreciation for existing equipment + Depreciation for newly acquired equipment

= Cost (vii) \times depreciation rate + Cost (ii) \times depreciation rate \times months incurred \div 12

$$= [(\$250,000 \times 15\%) + (\$100,000 \times 15\% \times 2 \div 12)]$$

$$= \$40,000$$

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000
<u>Non-current assets</u>		
Office equipment at cost (\$100,000 + \$250,000)		350
Less: Accumulated depreciation (W6)		<u>110</u>
		240
<u>Current assets</u>		
Inventory	279	
Insurance claim receivable (\$24,000 \times 40%)	9.6	
Cash at bank $\$ (450,000 + 1,130,000 - 1,371,000)$	<u>209</u>	<u>497.6</u>
		<u>737.6</u>

Capital

Balance as at 1 January 2019	659
Add: Net profit for the year	31.6
	<u>690.6</u>
Less: Drawings	85
	<u>605.6</u>

Current liabilities

Trade payables	128	
Accrued selling expenses	4	132
		<u>737.6</u>

Alternative Format:

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000	\$'000
<u>Non-current assets</u>			
Office equipment at cost (\$100,000 + \$250,000)			350
Less: Accumulated depreciation (W6)			<u>110</u>
			240
<u>Current assets</u>			
Inventory		279	
Insurance claim receivable (\$24,000 × 40%)		9.6	
Cash at bank \$(450,000 + 1,130,000 – 1,371,000)		<u>209</u>	
		497.6	
Less: <u>Current liabilities</u>			
Trade payables	128		
Accrued selling expenses	<u>4</u>	132	
Working Capital			<u>365.6</u>
			<u>605.6</u>
<u>Capital</u>			
Balance as at 1 January 2019			659
Add: Net profit for the year			<u>31.6</u>
			690.6
Less: Drawings			<u>85</u>
			<u>605.6</u>

- (W6) Accumulated depreciation as at 31 December 2019
 = Beginning balance + depreciation expenses
 = \$(250,000 – 180,000 + 40,000) = \$110,000

Challenging question

- Case 1 It is a normal loss. This type of loss is expected and cannot be avoided arising from normal business operation. The damaged goods should be valued at \$4,900 (\$5,200 - \$300) because the net realisable value is lower than the cost. The reduction in value of inventory would increase the cost of goods sold.

- Case 2 It is an abnormal loss. This type of loss is unexpected which may be caused by theft, fire, flood, earthquake, or accidents in transit. The inventory loss of \$8,000 should be recorded on the income statement as an expense.

Points to be noted:

1. All the expenses should be adjusted from cash basis to accrual basis before preparation of income statement.
2. The sales figure should be calculated based on the normal mark-up percentage (60%) before applying lower of cost and net realisable value.
3. The loss in value of closing inventory after applying the lower of cost and NRV was classified as normal loss. In contrast, cash loss not being compensated was treated as abnormal loss and reported on income statement as expenses.

Common mistakes

1. Fail to calculate sales figure based on the cost of goods sold before applying lower of cost and net realisable value.
2. Unable to apply the lower of cost and NRV in determining the value of closing inventory.
3. Unable to calculate the cash loss.
4. Unable to treat the insurance claim receivable as a current asset.
5. Fail to distinguish normal loss from abnormal loss.

Graded Assignment 4 – Incomplete Records
Advanced Level – Question Paper
(For existing curriculum)

Candy Chan, the owner of a retail shop, who did not keep proper accounting records for her business. On 31 December 2019, her assistant disappeared suddenly and all cash in hand was stolen. After investigation, the following information was available:

- (i) All sales were made on cash basis at a uniform mark-up of 60% for the year 2019.
- (ii) A summary of receipts and payments in cash at bank account for the year ended 31 December 2019 was as follows:

<u>Receipts</u>	\$
Cash deposit	1,130,000
 <u>Payments</u>	 \$
Administrative expenses	230,000
Selling expenses	54,000
Payments to suppliers	897,000
Bank charges	5,000
Candy's personal expenses	85,000
Office equipment (purchased on 1 November 2019)	100,000

- (iii) All purchases were made on credit and the amount owing to suppliers as at 31 December 2019 was \$128,000.
- (iv) During 2019, selling expenses of \$50,000 were paid in cash and sales commission for December 2019 amounting to \$4,000 was to be paid on 5 January 2020.
- (v) The insurance company had agreed to compensate the business for 40% of the cash stolen.
- (vi) A physical inventory count showed that the cost of inventory on 31 December 2019 was \$300,000. It was found that 25% of the inventory was slightly damaged and could only be sold for \$58,000 after repair costing \$4,000.
- (vii) Balances of the business as at 31 December 2018 were as follows:

	\$
Office equipment, net (with a cost of \$250,000)	180,000
Inventory	130,000
Cash at bank	450,000
Trade payables	110,000
Accrued selling expenses	3,000
Cash in hand	12,000

- (viii) It is the company's policy to charge depreciation on office equipment at a rate of 15% per annum on a straight-line basis.

REQUIRED:

- (a) Prepare a statement of affairs as at 1 January 2019. (2 marks)
 - (b) Prepare an income statement for the year ended 31 December 2019 showing the cash loss separately. (12 marks)
 - (c) Prepare a statement of financial position as at 31 December 2019. (6 marks)
- (Total: 20 marks)

Challenging question

Consider the following two cases:

- (1) Some damaged goods had been included in the ending inventory at their cost of \$5,000. If spending \$300 on repairing them, they could be sold at \$5,200.
- (2) During the year, there was a fire in the warehouse and inventory costing \$8,000 was destroyed.

REQUIRED:

- (d) Identify the type of losses for the above cases and explain briefly with reasons and accounting treatments.

(Total: 5 marks)

Graded Assignment 4 – Incomplete Records
Advanced Level – Student Worksheet
(For existing curriculum)

(a)

(b)

(c)

Challenging question

(d)

Graded Assignment 4 – Incomplete Records
Advanced Level – Suggested Solution and Explanatory Notes
(For existing curriculum)

(a)

Candy Chan
Statement of affairs as at 1 January 2019

	\$'000	\$'000
Assets		
Office equipment, net	180	
Inventory	130	
Cash at bank	450	
Cash in hand	12	772
	<hr/>	
Less: Liabilities		
Trade payables	110	
Accrued selling expenses	3	113
	<hr/>	
Capital (balancing figure)		<hr/> <hr/> 659

(b)

Candy Chan
Income statement for the year ended 31 December 2019

	\$'000	\$'000
Sales (\$745,000 (W2) × 160%)		1,192
Less: <u>Cost of goods sold</u>		
Opening inventory	130	
Add: Purchases (W1)	915	
	<hr/> 1,045	
Less: Closing inventory (W3)	279	766
	<hr/>	
Gross profit		426
Less: <u>Expenses</u>		
Administrative expenses	230	
Selling expenses (W4)	105	
Bank charges	5	
Cash loss (\$24,000 (W5) × 60%)	14.4	
Depreciation expenses (W6)	40	394.4
	<hr/>	
Net profit		<hr/> <hr/> 31.6

Workings:

(W1) Complete the trade payables account in order to calculate the amount of purchases

Trade payables			
	\$'000		\$'000
Cash at bank (ii)	897	Balance b/d (vii)	110
Balance c/d (iii)	128	Purchases (balancing figure)	915
	<hr/> 1,025		<hr/> <hr/> 1,025

- (W2) Calculate the cost of goods sold before applying lower of cost and net realisable value
 = Opening inventory + Purchases – Closing inventory
 = \$(130,000 + 915,000 – 300,000)
 = \$745,000
- (W3) Calculate the closing inventory after applying lower of cost and net realisable value (NRV)
- (i) 75% of closing inventory to be remained at cost
 = \$300,000 × 75%
 = \$225,000
- (ii) 25% of closing inventory that applying lower of cost and net realisable value
- | | |
|--------------------|--|
| (a) Valued at cost | (b) Valued at NRV |
| = \$300,000 × 25% | = Estimated selling price – Estimated costs of completion and disposal |
| = \$75,000 | = \$(58,000 – 4,000) |
| | = <u>\$54,000</u> |

As the NRV is lower than the cost, the 25% of inventory should be valued at \$54,000

The value of closing inventory (75% + 25%) = \$(225,000 + 54,000) = \$279,000

- (W4) Complete the selling expenses account in order to calculate the amount of selling expenses to be recorded on income statement

Selling expenses			
	\$'000		\$'000
Cash at bank (ii)	54	Accrued b/d (vii)	3
Cash in hand (iv)	50	Profit and Loss (balancing figure)	105
Accrued c/d (iv)	4		
	<u>108</u>		<u>108</u>

- (W5) Complete the cash in hand account in order to calculate the amount of cash stolen by the assistant

Cash in hand			
	\$'000		\$'000
Balance b/d (vii)	12	Cash at bank (ii)	1,130
Sales	1,192	Selling expenses (iv)	50
	<u>1,204</u>	Cash stolen (balancing figure)	24
			<u>1,204</u>

- (W6) Calculate the depreciation expenses
 = Depreciation for existing equipment + Depreciation for newly acquired equipment
 = Cost (vii) × depreciation rate + Cost (ii) × depreciation rate × months incurred ÷ 12
 = [(\$250,000 × 15%) + (\$100,000 × 15% × 2 ÷ 12)]
 = \$40,000

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000
<u>Non-current assets</u>		
Office equipment at cost (\$100,000 + \$250,000)		350
Less: Accumulated depreciation (W7)		110
		<u>240</u>
<u>Current assets</u>		
Inventory	279	
Insurance claim receivable (\$24,000 (W5) × 40%)	9.6	
Cash at bank \$(450,000 + 1,130,000 – 1,371,000)	209	497.6
		<u>737.6</u>
<u>Capital</u>		
Balance as at 1 January 2019		659
Add: Net profit for the year		31.6
		<u>690.6</u>
Less: Drawings		85
		<u>605.6</u>
<u>Current liabilities</u>		
Trade payables	128	
Accrued selling expenses	4	132
		<u>737.6</u>

Alternative Format:

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000	\$'000
<u>Non-current assets</u>			
Office equipment at cost (\$100,000 + \$250,000)			350
Less: Accumulated depreciation (W7)			110
			<u>240</u>
<u>Current assets</u>			
Inventory		279	
Insurance claim receivable (\$24,000 (W5) × 40%)		9.6	
Cash at bank \$(450,000 + 1,130,000 – 1,371,000)		209	
		<u>497.6</u>	
Less: <u>Current liabilities</u>			
Trade payables	128		
Accrued selling expenses	4	132	
		<u>365.6</u>	
Working Capital			<u>605.6</u>
<u>Capital</u>			
Balance as at 1 January 2019			659
Add: Net profit for the year			31.6
			<u>690.6</u>
Less: Drawings			85
			<u>605.6</u>

605.6

(W7) Accumulated depreciation as at 31 December 2019
= Beginning balance + depreciation expenses
= \$(250,000 – 180,000 + 40,000) = \$110,000

Challenging question

- Case 1 It is a normal loss. This type of loss is expected and cannot be avoided arising from normal business operation. The damaged goods should be valued at \$4,900 (\$5,200 - \$300) because the net realisable value is lower than the cost. The reduction in value of inventory would increase the cost of goods sold.
- Case 2 It is an abnormal loss. This type of loss is unexpected which may be caused by theft, fire, flood, earthquake, or accidents in transit. The inventory loss of \$8,000 should be recorded on the income statement as an expense.

Points to be noted:

1. All the expenses should be adjusted from cash basis to accrual basis before preparation of income statement.
2. The sales figure should be calculated based on the normal mark-up percentage (60%) before applying lower of cost and net realisable value.
3. The loss in value of closing inventory after applying the lower of cost and NRV was classified as normal loss. In contrast, cash loss not being compensated was treated as abnormal loss and reported on income statement as expenses.

Common mistakes

1. Fail to calculate sales figure based on the cost of goods sold before applying lower of cost and net realisable value.
2. Unable to apply the lower of cost and NRV in determining the value of closing inventory.
3. Unable to calculate the cash loss.
4. Unable to treat the insurance claim receivable as a current asset.
5. Fail to distinguish normal loss from abnormal loss.

Graded Assignment 4 – Incomplete Records

Marking Scheme

(For refined curriculum to be implemented at S4 in 2022/23 school year and onwards)

(a)		Candy Chan		Marks
		Statement of affairs as at 1 January 2019		
		\$'000	\$'000	
Assets				
Office equipment, net		180		
Inventory		130		
Cash at bank		450		
Cash in hand		12	772	0.5
Less: Liabilities				
Trade payables		110		
Accrued selling expenses		3	113	0.5
Capital (balancing figure)			659	1
				(Total: 2 marks)

(b)		Candy Chan		
		Income statement for the year ended 31 December 2019		
		\$'000	\$'000	
Sales (\$745,000 (W2) × 160%)			1,192	1.5
Less: <u>Cost of goods sold</u>				
Opening inventory		130		0.5
Add: Purchases (W1)		915		1.5
		1,045		
Less: Closing inventory (W3)		279	766	2
Gross profit			426	
Less: <u>Expenses</u>				
Administrative expenses		230		0.5
Selling expenses (W4)		105		2
Bank charges		5		0.5
Cash loss (\$24,000 × 60%)		14.4		1
Depreciation expenses (W5)		40	394.4	1
Net profit			31.6	0.5
				(Total: 11 marks)

Workings:

(W1) Complete the trade payables account in order to calculate the amount of purchases

Trade payables		
	\$'000	\$'000
Cash at bank	897	Balance b/d
Balance c/d	128	Purchases (balancing figure)
	1,025	

- (W2) Calculate the cost of goods sold before applying lower of cost and net realisable value
 = Opening inventory + Purchases – Closing inventory
 = \$(130,000 + 915,000 – 300,000)
 = \$745,000
- (W3) Calculate the closing inventory after applying lower of cost and net realisable value (NRV)
- (i) 75% of closing inventory to be remained at cost
 = \$300,000 × 75%
 = \$225,000
- (ii) 25% of closing inventory that applying lower of cost and net realisable value
- (a) Valued at cost
 = \$300,000 × 25%
 = \$75,000
- (b) Valued at NRV
 = Estimated selling price – Estimated costs of completion and disposal
 = \$(58,000 – 4,000)
 = \$54,000

As the NRV is lower than the cost, the 25% of inventory should be valued at \$54,000

The value of closing inventory (75% + 25%) = \$(225,000 + 54,000) = \$279,000

- (W4) Complete the selling expenses account in order to calculate the amount of selling expenses to be recorded on income statement

Selling expenses			
	\$'000		\$'000
Cash at bank	54	Accrued b/d	3
Cash in hand	50	Profit and loss (balancing figure)	105
Accrued c/d	4		
	<u>108</u>		<u>108</u>

- (W5) Calculate the depreciation expenses
 = Depreciation for existing equipment + Depreciation for newly acquired equipment
 = Cost (vii) × depreciation rate + Cost (ii) × depreciation rate × months incurred ÷ 12
 = [(\$250,000 × 15%) + (\$100,000 × 15% × 2 ÷ 12)]
 = \$40,000

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000	
<u>Non-current assets</u>			
Office equipment at cost (\$100,000 + \$250,000)		350	0.5
Less: Accumulated depreciation (W6)		<u>110</u>	1
		240	
<u>Current assets</u>			
Inventory	279		0.5
Insurance claim receivable (\$24,000 × 40%)	9.6		0.5
Cash at bank \$(450,000 + 1,130,000 – 1,371,000)	209	497.6	1
		<u>737.6</u>	

Capital

Balance as at 1 January 2019	659	0.5
Add: Net profit for the year	<u>31.6</u>	0.5
	690.6	
Less: Drawings	<u>85</u>	0.5
	<u>605.6</u>	

Current liabilities

Trade payables	128	0.5
Accrued selling expenses	<u>4</u> <u>132</u>	0.5
	<u>737.6</u>	

Alternative Format:

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000	\$'000	
<u>Non-current assets</u>				
Office equipment at cost (\$100,000 + \$250,000)			350	0.5
Less: Accumulated depreciation (W6)			<u>110</u>	1
			240	
<u>Current assets</u>				
Inventory		279		0.5
Insurance claim receivable (\$24,000 × 40%)		9.6		0.5
Cash at bank \$(450,000 + 1,130,000 – 1,371,000)		<u>209</u>		1
		497.6		
Less: <u>Current liabilities</u>				
Trade payables	128			0.5
Accrued selling expenses	<u>4</u>	<u>132</u>		0.5
Working Capital			<u>365.6</u>	
			<u>605.6</u>	
<u>Capital</u>				
Balance as at 1 January 2019			659	0.5
Add: Net profit for the year			<u>31.6</u>	0.5
			690.6	
Less: Drawings			<u>85</u>	0.5
			<u>605.6</u>	

- (W6) Accumulated depreciation as at 31 December 2019
 = Beginning balance + depreciation expenses
 = \$(250,000 – 180,000 + 40,000) = \$110,000

(Total: 6 marks)

Challenging question

- Case 1 It is a normal loss. This type of loss is expected and cannot be avoided arising from normal business operation. (1) The damaged goods should be valued at \$4,900 (\$5,200 - \$300) because the net realisable value is lower than the cost. The reduction in value of inventory would increase the cost of goods sold. (1)

- Case 2 It is an abnormal loss. (1) This type of loss is unexpected which may be caused by theft, fire, flood, earthquake, or accidents in transit. (1) The inventory loss of \$8,000 should be recorded on the income statement as an expense. (1)

(Total: 5 marks)

Graded Assignment 4 – Incomplete Records

Marking Scheme**(For existing curriculum)**

(a)	Candy Chan		Marks
	Statement of affairs as at 1 January 2019		
	\$'000	\$'000	
Assets			
Office equipment, net	180		
Inventory	130		
Cash at bank	450		
Cash in hand	12	772	0.5
Less: Liabilities			
Trade payables	110		
Accrued selling expenses	3	113	0.5
Capital (balancing figure)		659	1
			(Total: 2 marks)

(b)

Candy Chan

Income statement for the year ended 31 December 2019

	\$'000	\$'000	
Sales (\$745,000 (W2) ×160%)		1,192	1.5
Less: <u>Cost of goods sold</u>			
Opening inventory	130		0.5
Add: Purchases (W1)	915		1.5
	1,045		
Less: Closing inventory (W3)	279	766	2
Gross profit		426	
Less: <u>Expenses</u>			
Administrative expenses	230		0.5
Selling expenses (W4)	105		2
Bank charges	5		0.5
Cash loss (\$24,000 (W5) × 60%)	14.4		2
Depreciation expenses (W6)	40	394.4	1
Net profit		31.6	0.5

(Total: 12 marks)

Workings:

(W1) Complete the trade payables account in order to calculate the amount of purchases

Trade payables			
	\$'000		\$'000
Cash at bank	897	Balance b/d	110
Balance c/d	128	Purchases (balancing figure)	915
	1,025		1,025

- (W2) Calculate the cost of goods sold before applying lower of cost and net realisable value
 = Opening inventory + Purchases – Closing inventory
 = \$(130,000 + 915,000 – 300,000)
 = \$745,000
- (W3) Calculate the closing inventory after applying lower of cost and net realisable value (NRV)
- (i) 75% of closing inventory to be remained at cost
 = \$300,000 × 75%
 = \$225,000
- (ii) 25% of closing inventory that applying lower of cost and net realisable value
- | | |
|--------------------|--|
| (a) Valued at cost | (b) Valued at NRV |
| = \$300,000 × 25% | = Estimated selling price – Estimated costs of completion and disposal |
| = \$75,000 | = \$(58,000 – 4,000) |
| | = <u>\$54,000</u> |

As the NRV is lower than the cost, the 25% of inventory should be valued at \$54,000

The value of closing inventory (75% + 25%) = \$(225,000 + 54,000) = \$279,000

- (W4) Complete the selling expenses account in order to calculate the amount of selling expenses to be recorded on income statement

Selling expenses			
	\$'000		\$'000
Cash at bank	54	Accrued b/d	3
Cash in hand	50	Profit and loss (balancing figure)	105
Accrued c/d	4		
	<u>108</u>		<u>108</u>

- (W5) Complete the cash in hand account in order to calculate the amount of cash stolen by the assistant

Cash in hand			
	\$'000		\$'000
Balance b/d	12	Cash at bank	1,130
Sales	1,192	Selling expenses	50
		Cash stolen (balancing figure)	24
	<u>1,204</u>		<u>1,204</u>

- (W6) Calculate the depreciation expenses
 = Depreciation for existing equipment + Depreciation for newly acquired equipment
 = Cost (vii) × depreciation rate + Cost (ii) × depreciation rate × months incurred ÷ 12
 = [(\$250,000 × 15%) + (\$100,000 × 15% × 2 ÷ 12)]
 = \$40,000

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000	
<u>Non-current assets</u>			
Office equipment at cost (\$100,000 + \$250,000)		350	0.5
Less: Accumulated depreciation (W7)		110	1
		<u>240</u>	
<u>Current assets</u>			
Inventory	279		0.5
Insurance claim receivable (\$24,000 (W5) × 40%)	9.6		0.5
Cash at bank \$(450,000 + 1,130,000 – 1,371,000)	209	497.6	1
		<u>737.6</u>	
<u>Capital</u>			
Balance as at 1 January 2019		659	0.5
Add: Net profit for the year		31.6	0.5
		<u>690.6</u>	
Less: Drawings		85	0.5
		<u>605.6</u>	
<u>Current liabilities</u>			
Trade payables	128		0.5
Accrued selling expenses	4	132	0.5
		<u>737.6</u>	

Alternative Format:

(c)

Candy Chan

Statement of financial position as at 31 December 2019

	\$'000	\$'000	\$'000	
<u>Non-current assets</u>				
Office equipment at cost (\$100,000 + \$250,000)			350	0.5
Less: Accumulated depreciation (W7)			110	1
			<u>240</u>	
<u>Current assets</u>				
Inventory		279		0.5
Insurance claim receivable (\$24,000 (W5) × 40%)		9.6		0.5
Cash at bank \$(450,000 + 1,130,000 – 1,371,000)		209		1
		<u>497.6</u>		
Less: <u>Current liabilities</u>				
Trade payables	128			0.5
Accrued selling expenses	4	132		0.5
Working Capital			<u>365.6</u>	
			<u>605.6</u>	
<u>Capital</u>				
Balance as at 1 January 2019			659	0.5
Add: Net profit for the year			31.6	0.5
			<u>690.6</u>	
Less: Drawings			85	0.5
			<u>605.6</u>	

(W7) Accumulated depreciation as at 31 December 2019
= Beginning balance + depreciation expenses
= \$(250,000 – 180,000 + 40,000) = \$110,000

(Total: 6 marks)

Challenging question

- Case 1 It is a normal loss. This type of loss is expected and cannot be avoided arising from normal business operation. (1) The damaged goods should be valued at \$4,900 (\$5,200 - \$300) because the net realisable value is lower than the cost. The reduction in value of inventory would increase the cost of goods sold. (1)
- Case 2 It is an abnormal loss. (1) This type of loss is unexpected which may be caused by theft, fire, flood, earthquake, or accidents in transit. (1) The inventory loss of \$8,000 should be recorded on the income statement as an expense. (1)

(Total: 5 marks)