

Features

1

Grasp the exam focus and useful strategies in 1 minute

Chapter 5

LAST MINUTE NOTE

Inventory Valuation

Learning Points

- Prepare double entries for inventory valuation.
- Determine inventory value by weighted average cost, lower of cost and net realisable value, sale or return basis.
- Determine normal loss and abnormal loss.

Top Question Types & Marks

(A) Short questions (2 marks to 6 marks)

Revision and Examination Strategies

- Remember the double entries for inventory valuation.
- Use lower of cost and net realisable value to determine inventory value with damage or obsolescence.
- Use the following table for treatment on sale or return basis:

	Confirmed	Not confirmed
Goods sent	Add to Sales	Add to Closing inventory
Goods received	Add to Purchases	Deduct from Closing inventory

- Use **Timeline approach** for inventory valuation of early / late physical count.

The **Last Minute Note** before **Exam** in each chapter lists out the **learning points**.

Indicates the **question types** and **marks** in DSE.

Pinpoints the **revision** and **exam strategies**.

2

Cross traps and clarify concepts

Section 1

Common Mistakes

Use the following information for common mistakes (1) to (3):

	2017 \$	2018 \$
Trade receivables (before deducting bad debts)	50,000	60,000
Bad debts	4,000	5,000
Allowance for doubtful debts	2,000	3,000

1. Journal entries for allowance for doubtful debts in 2018:

	\$	\$	
Profit and loss	3,000		✗
Allowance for doubtful debts		3,000	
Profit and loss – increase in allowance	1,000		✓
Allowance for doubtful debts		1,000	

Concept Clarification
We record the **change of allowance for doubtful debts** in income statement.

Section 1 of each chapter analyses students' **common mistakes** with **examples** and **explanations**, help students cross the traps.

3

Capture star notes

Intensive notes help students master the exam focus and revise important concepts.

Section 2 Capture Star Notes

1 Books of original entry (also called Journals)

There are 6 different books of original entry. They are used to record different types of transactions.

Books of original entry (Journal)	Uses
Sales day book (Sales journal)	Record credit sales transactions
Purchases day book (Purchases journal)	Record credit purchases transactions
Returns inwards day book (Returns inwards journal)	Record returns inwards by credit customers
Returns outwards day book (Returns outwards journal)	Record returns outwards to credit customers
Cash book	Record all transactions involving the bank or cash
General journal (The journal)	<ul style="list-style-type: none"> Record other transactions not listed in other journals Record period-end adjustments

DSE Tips
No marks will be awarded if names of books of original entry are incorrect.

✓ Sales day book / Sales journal	✗ Sales book
✓ Purchases day book / Purchases journal	✗ Purchases book
✓ Cash book	✗ Cash journal

2 Entries in bank statement but not in cash at bank account

- All the items below have been entered in bank statement but are missing in cash at bank account:

Items	Meanings	Recorded in bank statement	Treatment / update needed in cash at bank account
Standing order	Auto payment with fixed amount	✓ deducted	Credit
Direct debit	Auto payment with non-fixed amount	✓ deducted	Credit
Direct credit	Auto receipt with non-fixed amount	✓ added	Debit
Bank charge	Auto payment charged by bank	✓ deducted	Credit
Interest expense	Auto payment charged by bank	✓ deducted	Credit
Interest revenue	Auto receipt from bank	✓ added	Debit
Dishonoured cheque (Returned cheque)	Cheque not cleared by bank	✓ deducted	Credit
Post-dated cheque	Cheque not cleared by bank as the cheque is dated in the future	✓ deducted	Credit
Stale cheque	Cheque cancelled by bank	✓ added	Debit

Key learning points are summarised in tables.

3 Inventory count before or after period-end date

(A) Case 1: Inventory count before period-end date

We need to update the balance from inventory count date to period-end date.

+ Purchases	- Sales at cost
- Returns outwards	+ Returns inwards at cost

Inventory count date → Period-end date

(B) Case 2: Inventory count after period-end date

We need to move back the balance from inventory count date to period-end date.

- Purchases	+ Sales at cost
+ Returns outwards	- Returns inwards at cost

Period-end date ← Inventory count date

DSE Tips
We can use **Timeline approach** to deal with Case 1 and Case 2 questions in Exam.

Accounting problems are analysed in different cases.

Example 8

Sales day book is overcast by \$100.

Sales Day Book		General ledger	
2019			
Jan 1	Mr. A 50	Jan 31 Trade Receivables	400
Jan 2	Mr. B 100		
Jan 3	Mr. C 150		
Jan 31	Total credit sales for the month		400

Sales ledger		Trial balance	
	Mr. A	Dr	Cr
Jan 1 Sales	\$ 50	\$	\$
	Mr. B		
Jan 2 Sales	\$ 100		
	Mr. C		
Jan 3 Sales	\$ 150		
	Trial balance		
		Trade receivables	300
		Sales	400
		Suspense	100

Corrections:	Dr	Cr
Sales	\$ 100	\$
Suspense		100

Flow and linkage of numbers in accounting are shown clearly.

4

Master the problems solving and scoring skills

Question decoder, **Exam key points**, **Key steps** and **Exam strategies** are included to help students **tackle problems** they commonly face in **Paper 2A**.

REQUIRED:

- Prepare the revaluation account. (3 marks)
- Prepare the partners' capital accounts showing change in partners. (8 marks)
- Explain the importance of revaluation upon change in partners. (2 marks)

Answer

(a)

Exam key points

Accounting entries for revaluation

	Dr	Cr
Increase in premises	Premises	Revaluation
Decrease in machinery	Revaluation	Machinery
Decrease in inventory	Revaluation	Inventory

		Revaluation		
		2018	2018	
(1) Dec 31	Machinery	20,000	Dec 31 Premises	100,000 (0.5)
(0.5) Dec 31	Inventory	50,000		
	Gain on revaluation			
(0.5) Dec 31	Capital – Lau	10,000		
(0.5) Dec 31	Capital – Kwan	20,000		
		100,000		100,000

(b)

Exam key points

Withdrawal of Lau

- Current balance of \$50,000 transfers to Capital balance of \$50,000
- Capital balance becomes zero

Key steps

"3 Steps in Goodwill"

Step 1 No goodwill account was to be maintained

Step 2 Open and close goodwill accounts

Step 3 Open goodwill and enter \$300,000

Exam key points in each chapter are extracted out. The **skills** in each key point are important in **tackling accounting problems**.

Key steps are developed to help students tackle accounting problems in a **systematic way**.

Answer

- It refers to the **relative importance** of an item to a company's financial information. It states that if an item is **insignificant in value** and does not **affect decision making**, (1) that item should be **written off as an expense**. (1)
- Example: Purchase cost on tools like hammers should be written off as expenses instead of capitalised although they can be used for years as the cost is insignificant to a company. (1)

(b)

Exam strategies

5 "NDT" approach

Name	Definition	Treatment
(i) Matching	The matching concept links revenue with its relevant expense.	<ul style="list-style-type: none"> The machine can generate revenue in 10 years. The cost of purchase is not treated as an expense. Depreciation expenses are provided over its useful life.
(ii) Prudence	It states that when preparing accounting records, we should choose a way that does not overstate assets and profits and does not understate liabilities and expenses.	<ul style="list-style-type: none"> Inventory should be valued at lower of cost and net realisable value. Inventory should be valued at net realisable value \$6,000 as it is lower than cost. Peter needs to write down inventory value by \$2,000. Normal selling price is irrelevant.
(iii) Objectivity	It states that accounting information should be based on facts, can be verified with source documents and is free from bias.	<ul style="list-style-type: none"> Peter's valuation is subjective. The company should use the valuation by independent professional which is objective. The value of antique vehicle needs to be written down by \$200,000.

Additional information:

On 31 December 2017, an amount of \$3,000 which was written off as bad debts was received. The debt was written off in 2017. No entries have been made for the recovery.

REQUIRED:

Prepare the following for the years ended 31 December 2016, 2017 and 2018:

- Bad debts account (4 marks)
- Allowance for doubtful debts account (4 marks)

Question decoder

On 31 December 2017, an amount of \$3,000 which was written off as bad debts was received. The debt was written off in 2017. No entries have been made for the recovery.

(Bad debts recovered within the same period) → (Bad debts account)

Question decoder highlights and explains the **important and tricky points** of questions.

Exam strategies with **unique problems solving and scoring skills** are developed to help students tackle accounting problems.