HKDSE
BAFS
(2011)
Paper 2A

Business, Accounting and Financial Studies

Mock Exam Paper (2011)

Paper 2A
Accounting Elective

Time allowed: $2\frac{1}{2}$ hours

This paper must be answered in English.

Instructions:

1 There are three sections in this paper: Section A (30%), Section B (50%) and Section C (20%).

2 All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.

SECTION A

Answer **ALL** questions in this section.

1 The following balances were extracted from the trial balance of Emerald Co as at 30 September 2012:

	Dr	*Cr*
	$	$
Purchases	756,981	
Sales		1,498,621
Rent and rates	228,963	
Wages and salaries	318,692	
Utilities	178,870	
Repairs and maintenance	25,694	
Sundry expenses	52,753	
Inventory, 1 October 2011	45,896	

Additional information:

(i) Items accrued: repairs $5,680; water charges $3,861.

(ii) Items prepaid: rates $12,865; salaries $8,756.

(iii) Inventory as at 30 September 2012 was valued at $49,867.

Required:

Prepare an income statement for Emerald Co for the year ended 30 September 2012.

(7 marks)

2 The bank statement of Karen & Co for March 2012 is as follows:

Bank Statement

Date		*Details*	*Dr*	*Cr*	*Balance*
2012			$	$	$
Mar	1	Balance b/d			375,984 *Dr*
"	3	Deposit		498,753	122,769 *Cr*
"	9	Cheque	135,950		13,181 *Dr*
"	11	Direct debit — Management fees	7,195		20,376 *Dr*
"	21	Deposit		77,987	57,611 *Cr*
"	25	Direct credit — Dividends		2,750	60,361 *Cr*
"	27	Cheque	3,860		56,501 *Cr*
"	31	Overdraft interest	18,756		37,745 *Cr*

The cash book (bank columns) for March 2012 is as follows:

Cash Book

2012			$	2012			$
Mar	4	Easy Co	498,753	Mar	1	Balance b/d	375,984
"	20	Fulton Ltd	77,987	"	7	Citizen Ltd	135,950
"	30	Paul Chan	7,590	"	22	Henry Lau	3,860
"	31	Balance c/d	58,339	"	28	Salem Ltd	126,875
			642,669				642,669

You are required to:

(a) Update the cash book. (4 marks)

(b) Prepare a bank reconciliation statement as at 31 March 2012. (3 marks)

(Total: 7 marks)

3 Show how each of the following errors would affect the agreement of a trial balance:

(a) Interest expense of $1,300 was credited to the interest revenue account.

(b) Capital contribution of $20,000 was debited to the drawings account.

(c) No entry was made for prepaid insurance of $3,860.

(d) A cheque of $13,980 received from a trade debtor, D Chi, was entered in the cash book but not in the personal account.

(e) Inventory sheets were overcast by $8,765.

(f) The returns inwards journal was undercast by $8,903.

(g) A cash payment of $1,986 to a trade creditor was debited to the rates account.

(h) Carriage outwards of $498 was credited to the returns outwards account.

(8 marks)

Suggested format:

Item	No effect	Debit total exceeds credit total by the amount of	Credit total exceeds debit total by the amount of
(a)			
(b)			
(c)			
(d)			
(e)			
(f)			
(g)			
(h)			

4 On 1 April 2012, Everest Ltd announced the issue of $500,000 8% debentures at 105, payable in full on application and repayable on 30 April 2032 at par. Debenture interest is payable on 1 April and 1 October each year.

Applications for $700,000 debentures (par value) were received on 25 April 2012. Allotments were made on 1 May 2012 and the excess application monies were refunded on the same date.

Required:

(a) Prepare the necessary ledger accounts to record the issuance of debentures. (5.5 marks)

(b) Assuming that the financial year ends on 31 December, calculate the debenture interest for the year ended 31 December 2012. (1 mark)

(c) Show the value of debentures appearing in the balance sheet as at 31 December 2012. (1.5 marks)

(Calculations to the nearest dollar)

(Total: 8 marks)

Section B

Answer **ALL** questions in this section.

5 Tammy and Roy were in partnership, sharing profits and losses in the ratio of 4 : 1. At the end of the financial year, 31 March 2012, the partnership's balance sheet was as follows:

Tammy and Roy
Balance Sheet as at 31 March 2012

	$	$	$
Non-current assets			
Premises			497,860
Equipment			282,110
			779,970
Current assets			
Inventory		258,900	
Accounts receivable		320,500	
		579,400	
Less *Current liabilities*			
Accounts payable	281,560		
Bank overdraft	47,770	(329,330)	
Net current assets			250,070
			1,030,040
Financed by:			
Capital: Tammy			839,540
Roy			190,500
			1,030,040

As there was disagreement between the partners, they decided to dissolve the partnership on 31 March 2012.

Tammy took over the premises for $620,000 and Roy took over the equipment for $238,000. Tammy was responsible for collecting the accounts receivable and was entitled to a commission of 5% on all sums received. Consequently, bad debts of $4,500 were written off and cash discounts of $6,000 were allowed. Inventory was sold for $227,850 and the accounts payable were paid off with a 10% discount. Dissolution costs of $17,376 were paid.

Required:

(a) Prepare the journal entries required for the dissolution of the partnership. (Narrations are not required.) (13 marks)

(b) Draw up the realisation account. (4 marks)

(c) Draw up the partners' capital accounts in columnar form. (3 marks)

(Total: 20 marks)

6 The following information relating to the financial year ended 30 April 2012 was extracted from the books of Sovereign Ltd:

As at 1 May 2011:	$
Accounts receivable ledger balances (debit)	65,974
Accounts receivable ledger balances (credit)	15,740
Accounts payable ledger balances (debit)	7,291
Accounts payable ledger balances (credit)	49,517
Allowance for doubtful accounts	17,986
For the year ended 30 April 2012:	
Cash sales	189,452
Credit sales	1,415,091
Returns inwards	17,282
Bad debts written off	52,767
Discounts allowed	33,954
Receipts from trade debtors	1,146,119
Cash purchases	39,986
Credit purchases	765,921
Carriage inwards	21,951
Carriage outwards	19,634
Payments to trade creditors	698,855
Discounts received	15,670
Omission of credit notes received from trade creditors for price reductions on defective goods	34,091
Balances in the accounts receivable ledger set off against balances in the accounts payable ledger	45,380
Cheques not cashed by trade creditors for more than six months	19,684

As at 30 April 2012:

Accounts receivable ledger balances (debit)	?
Accounts receivable ledger balances (credit)	7,888
Accounts payable ledger balances (debit)	6,417
Accounts payable ledger balances (credit)	?
Increase in allowance for doubtful accounts	3,244

Required:

(a) Draw up the accounts receivable ledger control and accounts payable ledger control accounts for the year ended 30 April 2012. (10 marks)

(b) Prepare a balance sheet extract to show the accounts receivable and accounts payable balances as at 30 April 2012. (3 marks)

(c) Explain why there were credit balances and debit balances in the accounts receivable ledger control and accounts payable ledger control accounts, respectively. (2 marks)

(Total: 15 marks)

7 The financial statements of Sapphire Ltd for the years ended 31 December 2011 and 2012 are as follows:

Sapphire Ltd
Statements of Comprehensive Income for the years ended 31 December 2011 and 2012

	2012	*2011*
	$000	$000
Turnover	29,853	38,550
Cost of sales	(15,394)	(17,980)
Gross profit	14,459	20,570
Other revenues	975	1,753
Administrative expenses	(7,163)	(9,975)
Selling and distribution expenses	(6,004)	(7,420)
Operating profit	2,267	4,928
Finance expenses	(469)	(412)
Profit before tax	1,798	4,516
Taxation	(360)	(904)
Profit after tax	1,438	3,612

Sapphire Ltd
Statements of Financial Position as at 31 December 2011 and 2012

	2012 $000	2011 $000
ASSETS		
Non-current assets		
Property, plant and equipment, net	9,655	8,958
Current assets		
Inventories	4,118	4,895
Accounts receivable	7,464	7,654
Prepayments	796	1,861
Bank	86	198
	12,464	14,608
Total assets	22,119	23,566
EQUITY AND LIABILITIES		
Share capital and reserves		
Share capital	7,800	7,800
Reserves	6,660	5,846
Total equity	14,460	13,646
Non-current liabilities		
10% debentures (repayable in 2021)	4,380	3,880
Current liabilities		
Accounts payable	2,402	3,868
Accruals	517	1,268
Tax payable	360	904
	3,279	6,040
Total liabilities	7,659	9,920
Total equity and liabilities	22,119	23,566

Additional information:

(i) All sales were made on credit and the turnover figure represented net sales.

(ii) All purchases were made on credit.

(iii) Only ordinary shares had been issued, each with a nominal value of $2.

(iv) Reserves consisted of retained profits.

(v) The closing market price per share on 31 December 2012 was $4.

Required:

Calculate (to two decimal places) the following accounting ratios for 2012:

(a) Net profit ratio (using operating profit) (1 mark)

(b) Return on long-term capital (1 mark)

(c) Acid test ratio (1 mark)

(d) Months' sales in accounts receivable (2 marks)

(e) Months' purchases in accounts payable (2 marks)

(f) Months' inventory on hand (2 marks)

(g) Debt-to-equity ratio (1 mark)

(h) Interest cover (1 mark)

(i) Price-earnings ratio (2 marks)

(j) Dividend cover (1 mark)

(k) Asset turnover (1 mark)

(Total: 15 marks)

Section C

Answer **ONE** question in this section.

8 Genius Ltd makes a single product. The production and sales information for the year ended 31 December 2012 is as follows:

Production (units)	350,000
Sales (units)	395,000
Opening inventory (units)	55,000
Selling price per unit	$130
Direct materials cost per unit	$40
Direct labour hours per unit	3 hours
Direct labour cost per hour	$15
Variable factory overheads per unit	$11.8
Variable distribution overheads per unit	$14.5
Fixed factory overheads	$1,750,000
Fixed administrative and distribution overheads	$5,485,600

The production volume and fixed factory overheads were the same in 2011 and 2012.

Required:

(a) Calculate the unit production costs for the year ended 31 December 2012 under absorption costing and marginal costing. (3.5 marks)

(b) Calculate, under both absorption costing and margin costing, the following:

(i) Manufacturing cost of goods completed

(ii) Cost of goods sold

(iii) Closing inventory (7 marks)

(c) Prepare income statements for the year ended 31 December 2012 under both absorption costing and margin costing. (5 marks)

(d) Reconcile the difference in net profit between the two costing approaches.

(1.5 marks)

(e) State the effects on the net profit calculated under absorption costing and marginal costing if:

(i) the sales volume exceeds the production volume;

(ii) the production volume exceeds the sales volume; and

(iii) the sales volume equals the production volume. (3 marks)

(Total: 20 marks)

9 The following trial balance was extracted from the books of Aurora Ltd as at 31 October 2012:

		Dr	*Cr*
		$	$
Purchases		1,005,631	
Sales			2,168,389
Returns inwards		36,572	
Returns outwards			18,643
Discounts allowed		42,553	
Bad debts		29,799	
Allowance for doubtful accounts			34,631
Debenture interest		60,800	
Rent and rates		210,054	
Salaries and wages		105,687	
Repairs and maintenance		43,216	
Sundry expenses		19,700	
Bank		287,545	
Inventory, 1 November 2011		108,123	
Premises		3,346,880	
Machinery and equipment		1,625,400	
Accumulated depreciation:	Premises		224,750
	Machinery and equipment		158,980
Retained profits			296,855
Ordinary shares of $10 each, fully paid			2,300,000
8% debentures (repayable in 2018)			1,520,000
General reserve			268,300
Share premium			345,000
Interim dividend		69,000	
Accounts payable			265,098
Accounts receivable		609,686	
		7,600,646	7,600,646

Additional information:

(i) Inventory as at 31 October 2012 was valued at $139,975. Items costing $12,000 were damaged but were included in the closing inventory at cost. These items could only be sold at a discount of 50%.

(ii) One of the trade debtors had been declared bankrupt and was unable to repay his debt of $7,866. The company also needed to maintain an allowance for doubtful accounts at 5% of accounts receivable.

(iii) Depreciation was to be provided as follows:

Premises	5% on cost
Machinery and equipment	10% on carrying amount

(iv) At the year end, prepaid rates amounted to $12,895. An invoice of $12,000, relating to a maintenance contract covering the period from 1 July 2012 to 30 June 2013, was not recorded.

(v) The directors proposed a transfer of $38,000 to the general reserve and a final dividend of 3%.

(vi) The profits tax rate was 20%.

Required:

Prepare the following financial statements for management purposes:

(a) An income statement for the year ended 31 October 2012. (7 marks)

(b) A balance sheet as at 31 October 2012. (5 marks)

Aurora Ltd planned to expand its business and required additional funding of $1,500,000. Two proposals were submitted to the board of directors for consideration:

(i) The issue of $1,500,000 10% debentures at par on 1 November 2012. The debentures would be repayable 10 years later.

(ii) The issue of $750,000 10% debentures at par and 60,000 ordinary shares at a premium of 25% on 1 November 2012.

The budgeted operating profit for the year ended 31 October 2013 was $800,000 and the profit tax rate remained unchanged.

Required: (Calculations to two decimal places)

(c) Determine the effect of each proposal on profit after tax for the year ended 31 October 2013. (2.5 marks)

(d) Assuming that no dividend would be paid during the year ended 31 October 2013, which proposal would yield a higher return on shareholders' equity? (2 marks)

(e) Which proposal would give rise to a higher debt ratio as at 1 November 2012? Explain the implications of having a high debt ratio? (3.5 marks)

(Total: 20 marks)

END OF PAPER 2A