HKDSE
BAFS
(Feb 2012)
Paper 2A

Business, Accounting and Financial Studies

Mock Exam Paper (Feb 2012)

Paper 2A

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 cost information relates to Safeway Ltd's production activities for the year ended 30 September 2012:

	Dr
	$
Raw materials consumed	856,980
Wages of production workers	1,239,860
Lubricants for machinery	29,550
Salaries of production supervisors	328,600
Depreciation on production machinery	279,740
Administrative and distribution costs	1,520,100

Required:

(a) Calculate:

(i) Prime cost (1 mark)

(ii) Conversion costs (2 marks)

(iii) Product costs (1 mark)

(iv) Period costs (1 mark)

(b) Distinguish between product costs and period costs and explain their accounting treatments. (3 marks)

(Total: 8 marks)

2 Victory Ltd commenced business on 1 January 2011 and information concerning its accounts receivable for the first two years of operations is as follows:

(i) As at 31 December 2011, accounts receivable totalled $468,000. A trade debtor, Treasure Ltd, which owed the company $7,800, was in serious financial difficulty and the company had to write off 50% of the sum as bad.

(ii) The company decided to create an allowance for doubtful accounts of 5% on the remaining accounts receivable.

(iii) On 15 July 2012, Treasure Ltd repaid by cheque the amount written off as bad in the previous year.

(iv) As at 31 December 2012, accounts receivable totalled $598,000. The allowance for doubtful accounts was to be maintained at 5% of accounts receivable.

Required:

(a) Prepare the required journal entries for the above items. (Narrations are not required.) (5 marks)

(b) State and briefly explain the accounting principle or concept that is being applied in creating an allowance for doubtful accounts. (2 marks)

(Total: 7 marks)

3 Given the statements of comprehensive income of Reliance Ltd for the years ended 30 June:

	2012	*2011*
	$000	$000
Turnover	18,763	21,957
Cost of sales	(5,893)	(5,490)
Gross profit	12,870	16,467
Administrative expenses	(3,876)	(4,015)
Selling and distribution expenses	(4,654)	(5,268)
Operating profit	4,340	7,184
Finance expenses	(2,090)	(2,250)
Profit before tax	2,250	4,934
Taxation	(428)	(1,100)
Profit after tax	1,822	3,834

Required:

(a) Conduct a horizontal analysis on the above statements of comprehensive income. (Calculations to two decimal places) (5 marks)

(b) Briefly comment on Reliance Ltd's profitability over the two years. (1 mark)

(c) Identify the major causes of the change in profitability over the period. (2 marks)

(Total: 8 marks)

4 Gemini Ltd's accountant prepared a trial balance as at 31 March 2012. The trial balance failed to agree by $814, with a shortage in the debit total. A suspense account was opened to record the difference.

Upon investigation, the following errors were discovered:

(i) A $450 cash sale of goods was recorded in the sales account as $4,450.

(ii) The returns inwards journal had been overcast by $1,286.

(iii) A cheque receipt of $3,290 from Anne Chow, a trade debtor, had been credited to the discounts received account.

(iv) A credit purchase of goods for $5,952 from Silver Co had been posted to Silvas Co, a trade debtor's account.

(v) A purchase of furniture by cheque for $1,900 had only been recorded in the furniture account. (Ignore depreciation)

Required:

(a) Prepare the necessary journal entries to correct the errors. (Narrations are not required.) (5 marks)

(b) If the draft net profit for the year ended 31 March 2012 was $82,970, recalculate the correct figure and show the workings. (2 marks)

(Total: 7 marks)

Section B

Answer **ALL** questions in this section.

5 Sammi Kwong started trading on 1 July 2011. As she had not employed an accountant, she only made handwritten entries in a notebook during the year ended 30 June 2012. A summary of the monthly bank statements for her first year of operation is as follows:

Deposits:

Capital introduced	$350,000
Cash sales	$37,950
Accounts receivable	$598,755

Payments:

Rent and rates	$129,570
Wages and salaries	$169,960
Utilities	$29,753
Accounts payable	$159,864
Motor vehicles	$159,700
Motor expenses	$17,930

All cash sale proceeds were banked after paying the following items and maintaining a cash sum of $3,000:

Wages	$4,900
Utilities	$480
Motor expenses	$1,310
Cash purchases	$2,500

Her handwritten records showed that returns outwards and returns inwards during the year totalled $12,890 and $24,590, respectively. The business allowed cash discounts of $12,740 to customers. As at 30 June 2012, accounts receivable totalled $98,960 and a specific allowance for doubtful accounts of $9,960 was to be made. Accounts payable amounted to $37,940 and closing inventory was valued at $28,763.

Depreciation was to be charged on motor vehicles at 20% of cost.

You are required to prepare:

(a) A cash book summary for the year ended 30 June 2012. (4 marks)

(b) An income statement for the year ended 30 June 2012. (7.5 marks)

(c) A balance sheet as at 30 June 2012. (2.5 marks)

(Calculations to the nearest dollar)

(Total: 14 marks)

6 Violet Ltd produces household goods. It has two manufacturing departments (M1 and M2) and two service departments (S1 and S2).

The budgeted factory overheads for the year ended 30 September 2013 are as follows:

	M1	*M2*	*S1*	*S2*	*Total*
	$	$	$	$	$
Allocated factory overheads	385,000	549,000	241,000	137,000	1,312,000
Factory rent and rates					750,800
Production supervisors' salaries					450,600
Electricity charges for machinery					346,100
Depreciation on machinery					121,400

The following information is also available:

	M1	*M2*	*S1*	*S2*
No. of workers	128	160	60	52
Floor area (square metres)	1,880	1,520	400	200
Machine hours	24,500	15,000	6,500	4,000
Machinery value	$1,056,000	$960,000	$216,000	$168,000

The estimated work performed by each service department for other departments is as follows:

	M1	*M2*	*S1*	*S2*
S1	45%	40%	—	15%
S2	40%	50%	10%	—

Required:

Calculate the total factory overheads allocated and apportioned to each manufacturing department using the following methods:

(a) Direct method (9 marks)

(b) Reciprocal method (9 marks)

(Calculations to the nearest dollar)

(Total: 18 marks)

7 Vincent and Winnie were in partnership, sharing profits and losses in the ratio of 3 : 1. The partnership's trial balance as at 30 September 2012 is as follows:

Vincent and Winnie
Trial Balance as at 30 September 2012

		Dr	*Cr*
		$	$
Office premises		880,000	
Equipment		215,000	
Vans		583,000	
Accumulated depreciation:	Office premises		205,000
	Equipment		75,300
	Vans		276,000
Inventory		225,020	
Trade receivables		290,800	
Bank		100,240	
Loan: Winnie			428,000
Trade payables			139,760
Profit and loss account			384,700
Capital account:	Vincent		535,000
	Winnie		245,000
Current account:	Vincent		35,000
	Winnie	29,700	
		2,323,760	2,323,760

The following adjustments had to be made to the net profit for the year:

(i) A 5% interest was to be charged on the loan from Winnie.

(ii) An allowance for doubtful accounts at 10% of trade receivables was to be created.

On 1 October 2012, Winnie retired and Karen was admitted to the partnership on the following terms:

(i) Vincent and Karen were to share profits and losses equally.

(ii) The goodwill of the old partnership was valued at $120,000, but this would not be shown in the books.

(iii) The following assets were revalued to:

Office premises	$900,000
Equipment	$120,000
Inventory	$185,000

(iv) Karen would bring in $500,000 cash as her capital and an additional sum for her share of goodwill.

(v) Winnie would take over some equipment valued at $45,000 and leave $150,000 of her capital balance with the new partnership as a loan.

You are required to:

(a) Prepare an income statement extract (showing appropriations only) of the old partnership for the year ended 30 September 2012. (2.5 marks)

(b) Prepare the following:

(i) Revaluation account (4 marks)

(ii) Partners' capital account in columnar form (7 marks)

(ii) Partners' current account in columnar form (2.5 marks)

(c) Explain why a revaluation of the partnership's assets and liabilities is required upon the admission of a new partner. (2 marks)

(Total: 18 marks)

Section C

Answer **ONE** question in this section.

8 Trident Ltd makes four products: W, X, Y and Z. Budgeted information for the next year relating to these four products is as follows:

	Product W	*Product X*	*Product Y*	*Product Z*
Per unit:				
Selling price	\$600	\$500	\$450	\$745
Direct materials	\$230	\$260	\$180	\$268
Direct labour (\$50/hour)	\$125	\$100	\$120	\$150
Variable overheads	\$50	\$60	\$42	\$105
Fixed overheads	\$75	\$60	\$72	\$90
Maximum annual demand (units)	20,000	25,000	18,000	10,000

A maximum of 142,000 direct labour hours will be available next year. Fixed overheads are absorbed at the rate of \$30 per direct labour hour based on the total direct labour hours required to meet the maximum demand for all four products.

Required:

(a) Determine the production priority for the four products and the production plan that will maximise net profit. (13 marks)

(b) Prepare a contribution income statement to show the net profit earned under the production plan determined in (a). (Assume that there is no opening inventory and all units produced are sold.) (4 marks)

(c) Explain how limiting factors impact decision-making and give two examples.

(3 marks)

(Total: 20 marks)

9 The following trial balance was prepared by Venus Ltd as at 31 March 2013.

	Dr	*Cr*
	$	$
Ordinary shares of $2 each, fully paid		2,200,000
8% preference shares of $10 each, fully paid		1,800,000
5% debentures (repayable in 2018)		1,700,000
Premises, at cost	6,800,000	
Machinery and equipment, at cost	2,278,000	
Accumulated depreciation: Premises		1,193,500
Machinery and equipment		639,000
Accounts receivable	1,789,500	
Accounts payable		424,870
Retained profits		1,085,470
Inventory	72,520	
Bank overdraft		230,855
General reserve		475,000
Sales		4,966,595
Purchases	1,689,320	
Wages and salaries	1,167,580	
Carriage inwards	41,833	
Carriage outwards	53,897	
Sundry expenses	2,950	
Marketing expenses	410,900	
Directors' remuneration	228,700	
Interim preference dividend	72,000	
Interim ordinary dividend	66,000	
Share premium		220,000
Debenture interest	42,500	
Overdraft interest	21,760	
Rates and management fees	178,900	
Discounts allowed	67,902	
Discounts received		48,972
	14,984,262	14,984,262

Additional information:

(i) Inventory as at 31 March 2013 was valued at $88,750.

(ii) An allowance for doubtful accounts at 2% of accounts receivable was to be made.

(iii) Depreciation was to be provided as follows:

Premises	5% on cost
Machinery and equipment	10% on net book value

(iv) The following expenses were to be allocated between administrative expenses and selling and distribution expenses:

Depreciation	70% (administrative); 30% (selling and distribution)
Wages and salaries	50% (administrative); 50% (selling and distribution)
Rates and management fees	60% (administrative); 40% (selling and distribution)

(v) The directors proposed a transfer of $38,000 to the general reserve. They also recommended a final ordinary dividend of 5% and a final preference dividend.

(vi) The following adjustments were to be made:

Accrued salaries	$11,500
Prepaid management fees	$4,980
Audit fees	$22,000

(vii) Profits tax for the year was $47,000.

Required:

Prepare the following financial statements for external use:

(a) A statement of comprehensive income for the year ended 31 March 2013. (9.5 marks)

(b) A statement of financial position as at 31 March 2013. (6.5 marks)

The company changed the depreciation method used for machinery and equipment following a review of the usage pattern of these non-current assets during the year. Previously, this category of assets was depreciated on a straight-line basis at 20% of cost per annum. The change would more accurately reflect the use of these assets.

Required:

(c) State the accounting principle or concept that was applied in the change of depreciation methods. (2 marks)

(d) Identify the principal qualitative characteristic of financial information that is applicable to this case and state how the change should be dealt with in the financial statements. (2 marks)

(Total: 20 marks)

END OF PAPER 2A