HKDSE
BAFS
(Mar 2013)
Paper 2A

Business, Accounting and Financial Studies

Mock Exam Paper (Mar 2013)

Paper 2A
Accounting Module

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.

This paper is written with reference to the '*Supplementary Notes for BAFS curriculum* (Draft as at 15 November 2012)' which is to be effective for the 2014 and 2015 HKDSE.

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SECTION A

Answer **ALL** questions in this section.

1 The following information was extracted from the books of Coles Ltd:

Trade receivables balance as at 31 December 2012	$490,800
Bad debts to be written off	$7,800

An allowance of doubtful debts of 5% was created on 31 December 2012. An allowance of discounts allowed of 2% was also created on the same date.

Trade receivables balance as at 31 December 2013	$389,000
Bad debts to be written off	$15,000

The allowance of doubtful debts as at 31 December 2013 was reduced to 4% while the allowance of discounts allowed was increased by three percentage points.

Required:

(a) Prepare the allowance for doubtful debts and the allowance for discounts allowed accounts for the two years. (5 marks)

(b) Prepare balance sheet extracts in respect of the trade receivables as at 31 December 2012 and 2013. (3 marks)

(Total: 8 marks)

2 Kingston Ltd makes two products: Product M and Product N. Product M sells for $350 per unit and Product N sells for $220 per unit. The products' variable cost information is as follows:

Per unit:	*Product M*	*Product N*
Variable manufacturing costs	$170	$98
Variable administrative and selling costs	$70	$40

Budgeted sales units for the coming year are 40,000 units of Product M and 100,000 units of Product N. Budgeted fixed costs amount to $9,900,000.

Required:

(a) Compute the break-even sales revenue.

(b) Compute the contribution margin ratio.

(Calculations to two decimal places) (7 marks)

3 The bank column of Linfield Ltd's cash book showed a credit balance of $39,580 as at 31 March 2013. However, the company's March 2013 bank statement showed a credit balance of $29,763 as at 31 March 2013. Upon investigation, the following items were discovered:

(i) A cheque payment of $3,700 for goods purchased was debited twice to the cash book.

(ii) Dividends of $12,980 directly credited by the bank were omitted from the cash book.

(iii) Bank charges of $1,900 were not recorded in the cash book.

(iv) An autopay for electricity charges of $7,180 shown in the bank statement did not appear in the cash book.

(v) A cheque of $7,064 deposited on 28 March 2013 was cleared on 2 April 2013.

(vi) A cheque payment of $14,785 for advertising was dishonoured as the cheque signature did not match the bank's records.

(vii) As at 31 March 2013, the following cheques were unpresented:

Cheque no.	*Cheque date*	*Amount*
309990	15 Sept 2012	$18,999
310598	8 Jan 2013	$16,988
312355	20 Mar 2013	$26,835

Required:

(a) Prepare a bank reconciliation statement as at 31 March 2013, starting with the unadjusted cash book balance. (6 marks)

(b) Calculate the correct bank balance as at 31 March 2013. (2 marks)

(Total: 8 marks)

4 Vintage Ltd has an authorised capital of $3,000,000, divided into 500,000 8% preference shares of $2 each and 400,000 ordinary shares of $5 each. Half of the preference shares and one-quarter of the ordinary shares were already issued and fully paid.

On 1 February 2013, the company announced the issuance of all remaining preference shares at par and half of the remaining ordinary shares at $7 each. On 15 February 2013, applications were received for three-quarters of the preference shares and two times the ordinary shares on offer. The shares were issued on 28 February 2013, with the refund of excess application monies made on the same day.

Required:

(a) Prepare journal entries to record the above transactions. (5 marks)

(b) Name two differences between preference shares and ordinary shares from the perspective of shareholders. (2 marks)

(Total: 7 marks)

Section B

Answer **ALL** questions in this section.

5 Kevin, Lucy and Donald are partners. The following information was extracted from the partnership's books as at 1 January 2013:

	Kevin	*Lucy*	*Donald*
Profit and loss sharing ratio	5	2	3
Capital accounts	$800,000	$600,000	$400,000
Current accounts	($73,500)	$129,000	$86,700

Additional information:

(i) The partnership's draft accounts for the year ended 31 December 2013 showed a net profit of $1,720,000 before adjustments for depreciation and doubtful accounts and appropriation items.

(ii) Information on non-current assets is as follows:

	Cost	*Accumulated depreciation*	*Depreciation basis*
Furniture and equipment	$600,800	$305,000	20% on carrying amount per annum
Machinery	$750,000	$315,000	Units of output

The machinery was acquired on 1 January 2010. An estimated 1,000,000 units would be able to be produced over its useful life and the residual value was $50,000. For the year ended 31 December 2013, a total of 150,000 units were produced.

(iii) The partnership's policy was to keep the allowance for doubtful accounts at 4% of accounts receivable. As at 31 December 2013, accounts receivable totalled $1,290,500 while the allowance for doubtful accounts amounted to $67,392. A sum of $5,700 was to be written off as a bad debt.

(iv) Kevin and Donald were entitled to annual salaries of $120,000 and $84,000, respectively.

(v) Rate of interest on capital: 8% per annum.

(vi) Rate of interest on drawings: 10% per annum.

(vii) Drawings made on 1 July 2013: Kevin $39,000; Donald $28,000.

(viii) Lucy loaned $190,000 to the partnership on 1 April 2013 and charged interest at 12% per annum.

Required:

(a) Prepare the profit and loss appropriation account for the year ended 31 December 2013. (Calculations to the nearest dollar) (12 marks)

(b) How would the following items be treated under the Partnership Ordinance if there was no partnership agreement?

(i) Capital contributions by partners (1 mark)

(ii) Partners' salaries (1 mark)

(iii) Sharing of profit and loss (1 mark)

(Total: 15 marks)

6 The following balances were extracted from the books of Platinum Ltd as at 30 September 2012, the year-end date:

	$
Sales ledger debit balances	423,380
Sales ledger control account (debit)	429,550
Purchases ledger credit balances	271,765
Purchases ledger control account (credit)	265,770

Upon investigation, the following errors were discovered:

(i) Discounts allowed of $2,970 in the cash book had only been posted to the sales ledger.

(ii) A trade creditor's balance of $585 had been omitted from the list of purchases ledger balances.

(iii) A credit purchase of $8,990 had been entered in the purchases day book as $9,890 and posted twice to the supplier's account in the purchases ledger.

(iv) A dishonoured cheque of $2,753 from a trade debtor had not been recorded in the books.

(v) A cheque of $6,400 in respect of a bad debt written off two years ago was received and banked, but no entries had been made in the books.

(vi) A set-off of $5,390 between the sales and purchases ledgers had not been recorded in the control accounts.

(vii) A cash receipt of $1,290 from Pringle Ltd, a trade debtor, had been correctly recorded in the cash book but incorrectly credited to Prince Ltd in the purchases ledger.

(viii) A return from a trade debtor had been omitted from the books. These goods cost $3,900 and were sold at a mark-up of 50% and a trade discount of 10%.

(ix) The sales day book had been undercast by $900.

(x) The purchases returns day book had been overcast by $790.

Required:

(a) Draw up the sales ledger control account and the purchases ledger control account to determine their correct balances as at 30 September 2012. (6.5 marks)

(b) Prepare statements to reconcile the totals of the sales ledger and purchases ledger balances with the corrected control account balances as at 30 September 2012. (6.5 marks)

(c) States two advantages of maintaining control accounts for the sales and purchases ledgers. (2 marks)

(Total: 15 marks)

7 The following information was extracted from Keen Ltd's balance sheet as at 31 December 2012:

	$
Machinery	470,000
Less Accumulated depreciation	(289,600)
	180,400

During the year ended 31 December 2013, the following transactions took place regarding machinery:

(i) On 1 April 2013, machine No. 4 was destroyed in a fire. The machine was purchased on 1 July 2010 at a cost of $30,000. The insurance company paid $12,500 by cheque as compensation on 30 June 2013.

(ii) On 1 July 2013, machine No. 7 was disposed of for $11,300. It was acquired on 1 May 2012 for $18,000.

(iii) On 1 December 2013, machine No. 5, which was acquired on 1 September 2011 at a cost of $72,000, was used in part exchange for a new machine (machine No. 9) bought from Fortune Machinery Ltd. The new machine cost $90,000 and the trade-in value of machine No. 5 was $45,000. The company was given 60 days to settle the balance.

The company uses straight-line depreciation at a rate of 25% per annum on cost, with a proportionate charge in the year of acquisition and the year of disposal.

Required:

(a) Show the entries in the following accounts for the year ended 31 December 2013:

- (i) Machinery (3.5 marks)
- (ii) Accumulated depreciation on machinery (7.5 marks)
- (iii) Machinery disposals (5 marks)

(b) Briefly explain what depreciation is and state three causes of depreciation. (4 marks)

(Total: 20 marks)

Section C

Answer **ONE** question in this section.

8 The following trial balance was extracted from the books of Billion Ltd, a listed company, as at 31 May 2013:

		Dr	*Cr*
		$	$
Purchases and sales		25,140,780	60,737,230
Returns inwards and outwards		914,300	466,150
Carriage inwards		1,063,830	
Bad debts		745,000	
Allowance for doubtful debts			865,700
Rent and rates		2,758,850	
Salaries and wages		7,735,080	
Marketing expenses		492,500	
Bank		5,875,420	
Inventory, 1 June 2012		2,703,700	
Buildings		46,250,000	
Machinery and equipment		40,635,000	
Accumulated depreciation:	Buildings		5,618,750
	Machinery and equipment		3,974,500
Retained losses		3,421,380	
Ordinary shares of $5 each, fully paid			37,500,000
6% non-cumulative preference shares of $2 each, fully paid			18,000,000
Share premium			18,625,000
Accounts receivable and accounts payable		14,678,940	6,627,450
		152,414,780	152,414,780

Additional information

(i) Inventory as at 31 May 2013 was valued at $3,509,000 and included damaged items costing $240,000. These items could only be sold for $95,000 after being repaired at a cost of $29,000.

(ii) One of the trade debtors was in financial difficulty and the entire debt amount of $578,940 could be uncollectible. The company also needed to maintain a general allowance for doubtful debts of 5%.

(iii) Depreciation was to be provided as follows:

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

(iv) At the year end, prepaid rates and accrued salaries were $135,050 and $289,000, respectively.

(v) No preference dividends were paid in the previous financial year as the company had incurred a loss. The board of directors recommended the payment of preference dividends this year.

(vi) The board also proposed to transfer profits of $2,000,000 to the general reserve and pay a dividend of $0.2 per ordinary share.

(vii) The profits tax rate was 20%.

Required:

(a) Prepare the following financial statements for management purposes:
   (i) An income statement for the year ended 31 May 2013. (8 marks)
   (ii) A balance sheet as at 31 May 2013. (5 marks)

(b) Compute the following accounting ratios:
   (i) Asset turnover (1 mark)
   (ii) Return on equity (1 mark)
   (Calculations to two decimal places)

During the year, the company was sued by a customer who was seriously injured by the company's defective products. The plaintiff claimed damages of $5,000,000. Although the lawsuit has not yet been decided by the court, the company's lawyers have advised the company that it is likely to lose the case. The directors, who hold large numbers of shares in the company, have instructed the chief financial officer of the company (a member of the Hong Kong Institute of Certified Public Accountants) not to make a provision for damages in the accounts or disclose the lawsuit in the financial statements. They fear that the share prices of the company will fall significantly as a result and lead to financial losses.

Required:

(c) Is it ethical for the company not to make a provision for damages and disclose the lawsuit in the financial statements? (2 marks)

(d) What accounting concept(s) or principle(s) would be violated if the company fails to take the measures described in (c)? (2 marks)

(e) Which fundamental principle in the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants would be violated if the chief financial officer follows the instruction of the board of directors? (1 mark)

(Total: 20 marks)

9 Advance Ltd uses a job costing system in its factory, which has two production departments: machining and assembly. There are two categories of direct manufacturing costs: direct materials and direct labour, and two manufacturing overhead cost pools: machining department overheads and assembly department overheads. The budgeted figures for the factory for the year ended 30 June 2013 are as follows:

	Machining department	*Assembly department*
Direct labour cost	$2,570,000	$5,250,000
Manufacturing overheads	$3,480,000	$2,700,000
Direct labour hours	80,500	125,000
Machine hours	145,000	90,800

Required:

(a) Determine an appropriate absorption base for the manufacturing overheads of each production department. (2 marks)

(b) Calculate the predetermined overhead absorption rate for each production department. (2 marks)

(c) Job No. A150 was completed during the year and its job cost sheet shows the following information:

	Machining department	*Assembly department*
Direct materials consumed	$57,110	$88,040
Direct labour cost	$70,200	$285,000
Direct labour hours	900	2,000
Machine hours	1,500	750

Calculate the total manufacturing costs of Job No. A150 under normal costing.

(3 marks)

(d) Determine the selling price of Job No. A150, assuming that administrative overheads were charged at 30% of total manufacturing costs and a mark-up of 40% would be applied. (3 marks)

(e) Actual manufacturing overheads for the year were $3,180,050 for the machining department and $2,970,800 for the assembly department. In addition, the machining department used 147,900 machine hours while the assembly department used 118,700 direct labour hours.

Calculate the under- or over-absorbed manufacturing overheads of each production department. (4 marks)

(f) Explain the causes of under- or over-absorption of manufacturing overheads under normal costing. (2 marks)

The company currently uses a manual accounting system. The chief financial officer has been asked by the board of directors to advise whether the company should switch to a computerised accounting system.

Required:

(g) State two advantages and two disadvantages of using a computerised accounting system. (4 marks)

(Total: 20 marks)

END OF PAPER 2A