HKDSE
BAFS
(Mar 2015)
Paper 2A

Business, Accounting and Financial Studies

Mock Exam Paper (Mar 2015)

Paper 2A
Accounting Module

Time allowed: 2 hours and 15 minutes
This paper must be answered in English.

Instructions:

1. There are THREE sections in this paper: Section A (24%), Section B (36%) 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.

For HKDSE Exam 2015 onwards

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SECTION A

Answer **ALL** questions in this section.

1 Samantha Chan is the owner of Samantha Co, a retailer. The bank column of the firm's cash book showed a credit balance of $8,990 as at 30 September 2014, which disagreed with the balance as per bank statement balance on the same date. The following discrepancies were revealed upon investigation:

(i) A cheque deposit $11,100 on 29 September 2014 was not yet shown in the bank statement.

(ii) Bank interest of $3,430 was credited in the bank statement but was not reflected in the cash book.

(iii) On 30 September 2014, Samantha deposited $1,900 into the business bank account. This was not recorded in the cash book.

(iv) At the month-end, the bank paid office rent of $55,300 for the firm under a standing order. The payment was not entered in the cash book.

(v) The total of the debit side of the bank column was undercast by $450.

(vi) A cheque receipt of $1,234 was recorded on the credit side of the bank column as $12,340.

(vii) A cheque issued to Lily Lam for $1,280 was recorded as $1,380 in the cash book.

(viii) Cheques totalling $16,050 were drawn by the business during the month but were not yet presented for payment.

Required:

(a) Update the cash book's bank column. (5 marks)

(b) Draw up a bank reconciliation statement to account for the difference between the updated cash book balance and the balance shown in the bank statement. (3 marks)

(Total: 8 marks)

2 Mary Ltd's financial year ended on 31 December 2014. The following information was extracted from the company's business records:

Repairs and maintenance (all paid by cheque)

	$
One month's prepaid maintenance fees as at 31 December 2013	450
Accrued repair charges as at 31 December 2013	4,000
Annual maintenance fees for the year ended 31 January 2015 paid on 1 February 2014	5,400
Repair charges paid during the year	13,000

Rent (all paid by cheque)

	$	
Rent prepaid to Sunshine Property Ltd as at 31 December 2013	20,000	
Rent paid quarterly to Sunshine Property Ltd on 1 March 2014 (for three months ending 30 May 2014), 1 June 2014 (for three months ending 31 August 2014), 1 September 2014 (for three months ending 30 November 2014) and 1 December 2014 (for three months ending 28 February 2015)	30,000	each time
One year's rent paid in advance to Rainy Property Ltd on 1 January 2014	120,000	

Required:

Write up the repair and maintenance account and the rent account in Mary Ltd's general ledger for the year ended 31 December 2014. (8 marks)

3 Jonathan Lee operates as a food wholesaler. On 1 January 2015, his business purchased a warehouse to store inventory. Information relating to the acquisition is as follows:

(i) The asking price of the warehouse was $10,000,000. After bargaining, the seller agreed to reduce the price by $500,000.

(ii) The warehouse was repainted at a cost of $100,000.

(iii) A further sum of $2,500,000 was spent to build an extension to the warehouse.

(iv) Paid one year's property insurance premium of $600,000.

(v) Legal fees related to the acquisition amounted to $80,000.

It is expected that the warehouse can be used for 20 years and has a residual value of $4,000,000. The business uses the straight-line method to calculate depreciation on the warehouse.

Required:

(a) Compute the capital expenditure incurred in the acquisition of the warehouse. (5 marks)

(b) Calculate the depreciation on the warehouse for the year ended 31 December 2020. (3 marks)

(Total: 8 marks)

Section B

Answer **ALL** questions in this section.

4 Johnny Lam operates a garment factory. You were recently hired as the accountant for his business. After reviewing the books of accounts prepared by you, he asked the following questions:

(i) 'During the year, I spent $200 on the purchase of lubricants for machinery. Why was this sum classified as repairs and maintenance instead of being shown separately in the accounts?'

(ii) 'During the week before the end of the financial year, we bought goods from Lee's Ltd for $3,000 and have not yet settled the amount. How should the transaction be treated?'

(iii) 'My business is famous in the garment industry. How should I state the value of goodwill in the books?'

Required:

(a) Prepare the correct journal entries to record items (i) and (ii). Briefly explain your answer by referring to the applicable accounting concepts or principles. (8 marks)

(b) Explain to Johnny Lam the correct accounting treatment for item (iii). (2 marks)

(Total: 10 marks)

5 Apple, Barry and Cathy were partners, sharing profits and losses in the ratio of 3 : 2 : 1. The following is the partnership's statement of financial position as at 30 June 2014:

Apple, Barry and Cathy
Statement of Financial Position as at 30 June 2014

			$	$
Assets				
Goodwill				300,000
Machinery and equipment, net				491,250
Motor vehicles, net				975,000
Inventory				95,625
Trade receivables				306,525
Bank				85,350
				2,253,750
Less	*Liabilities:*			
	Trade payables		262,500	
	Loan from Apple		127,500	390,000
				1,863,750
Financed by:				
Capital accounts:		Apple	945,000	
		Barry	881,250	
		Cathy	30,000	1,856,250
Current accounts:		Apple	18,000	
		Barry	(4,500)	
		Cathy	(6,000)	7,500
				1,863,750

The partners agreed to dissolve their partnership on 30 June 2014. On the date of dissolution:

(i) Goodwill was written off.

(ii) Certain machinery and equipment were taken over by the following partners at net book value:

	$
Apple	150,000
Barry	180,000

The remaining machinery and equipment were sold at 70% of net book value.

(iii) The motor vehicles were disposed of at a profit of $178,500.

(iv) The trade receivables were realised for $285,000.

(v) Apple took over the entire inventory at book value.

(vi) The trade payables were taken over by Barry and settled with a 10% discount.

(vii) Dissolution expenses totalled $56,250.

(viii) As Cathy was insolvent, her capital deficiency was borne by Apple and Barry according to their profit and loss sharing ratio.

On dissolution, all partners' loan and current account balances were transferred to their respective capital accounts before adjustments were made.

Required:

(a) Prepare the realisation account. (5 marks)

(b) Prepare the bank account. (4 marks)

(c) Prepare the partners' capital accounts in columnar form. (5 marks)

(Total: 14 marks)

6 Orange Ltd produced 9,500 units of a single product called 'Orange' during the year ended 31 March 2015. Eighty per cent of the products were sold for $1,510 each during the year. There was no opening inventory.

Cost information for Orange is as follows:

Direct materials		$180 per unit
Direct labour		$410 per unit
Manufacturing overheads:	Variable	$60 per unit
	Fixed	$1,000,000 per year
Marketing costs:	Variable	6% of sales
	Fixed	$200,000 per month

Required:

Prepare income statements for the year ended 31 March 2017 using the following approaches:

(a) Absorption costing (6 marks)

(b) Marginal costing (6 marks)

(Total: 12 marks)

Section C

Answer **ONE** question in this section.

7 Super Computer & Co is a computer retailer. Its draft income statement for the year ended 31 December 2014 showed a net profit of $2,463,884. The trial balance prepared by Jenny Ho, the accountant, at the year-end date did not balance. A suspense account was opened to record the difference.

During subsequent investigations, the following errors were discovered:

(i) A motor vehicle costing $400,000 and acquired on 1 January 2014 for use in the business was debited to the purchases account. It is the firm's policy to depreciate motor vehicles at 20% per annum on a reducing-balance basis.

(ii) When an inventory count was made at the year-end, one of the inventory sheets was undercast by $2,064.

(iii) Equipment costing $20,000 was purchased on 1 July 2014. It was depreciated at 10% per annum on cost. However, the reducing-balance method at 20% per annum should have been adopted for equipment.

(iv) A commission expense of $2,440 was credited to the commission revenue account as $640.

(v) A sum of $12,000 spent by the owner of Super Computer & Co during his holiday was charged to the firm's general expenses account.

(vi) The electricity bill for December 2014 of $20,000 was credited to a trade creditor's account. No other entries were made.

(vii) In September 2014, goods costing $7,200 were damaged by water from burst pipes. They were subsequently sold at a 60% discount for cash. No entries were made for the above events.

(viii) Cash sales of $3,260 appeared in the cash book but were not posted to the general ledger.

(ix) The bookkeeper was instructed to record a bad debt recovery of $7,900 written off in 2013 and to increase the allowance for doubtful debts by $7,908. However, he erroneously recorded the bad debt recovered as $7,908 and reduced the allowance for doubtful debts by $7,900. The receipt from the trade debtor was correctly recorded.

Required:

(a) Prepare the necessary journal entries to correct the above errors.
(Narrations are not required.) (13.5 marks)

(b) Prepare a statement to adjust the net profit for the year. (6.5 marks)

(Total: 20 marks)

8 Silver Lining Enterprise produces a single product called 'Light'. This product is sold at $500 each. The following information relates to the budgeted revenues and expenses of Light for the year ended 31 December 2014:

Budgeted sales	1,000,000 units
Direct materials	$210 per unit
Direct labour	$6,000,000 (based on budgeted production)
Royalties	$100 per unit (based on budgeted sales)
Fixed manufacturing overheads	$2,780,000
Fixed non-manufacturing overheads	$3,060,000
Commission expense	10% of sales revenue

There is no opening inventory. It is estimated that all units produced will be sold during the year.

Required:

(a) Compute the break-even sales, both in dollars and in units. (7 marks)

(b) Compute the margin of safety, both in dollars and in units. (4 marks)

(Calculations to the nearest dollar or unit)

On 1 January 2015, Silver Lining Enterprise is considering launching a new product called 'Sunlight', an upgraded version of Light. The business has already spent $1,000,000 on research and development of this product. Information concerning Sunlight is as follows:

(i) The selling price is $800 each.

(ii) The expected demand for this product is 70,000 units.

(iii) The variable production cost per unit is $710 per unit.

(iv) The business needs to lease additional factory space to produce this product at a cost of $1,200,000 per year.

(v) If this new product is launched, sales of Light are expected to fall by 80%.

Required:

(c) Should the business produce Sunlight? Show all calculations. (6 marks)

(d) Irene Wong, the owner, thinks that Sunlight should be produced regardless of the recommendation you made in part (c). This is because the business has already spent a great deal of money developing this product. Do you agree with her? Briefly explain your answer. (3 marks)

END OF PAPER 2A