

## **Business, Accounting and Financial Studies**

### **Mock Exam Paper (Mar 2016)**

#### **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.
- 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 in 2016 and onwards
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**SECTION A** (24 marks)

Answer **ALL** questions in this section.

- 1** Calculate (to two decimal places) from the following information the price-earnings ratio of a business as at 31 December 2017: (4 marks)

(i) Figures for the year ended 31 December 2017: gross profit \$1,358,200; profit before interest and tax \$500,000; interest expense \$10,900; profits tax \$81,000; preference dividend \$30,000.

(ii) The closing market share price as at 31 December 2017 was \$49.6.

(iii) Share capital as at 31 December 2017:

Ordinary share capital: \$2,000,000

Preference share capital: \$1,200,000

There were 100,000 issued ordinary shares and 60,000 issued preference shares as at the same date.

- 2** Chan, Lam, Au, Yuen and Hung had been partners for many years. With effect from the financial year beginning on 1 January 2017, they agreed to change the profit and loss sharing ratio as follows:

	<i>Old ratio</i>	<i>New ratio</i>
Chan	7	11
Lam	6	4
Au	1	3
Yuen	4	4
Hung	2	2

Goodwill was valued at \$4,800,000. No goodwill account was to be opened.

*Required:*

Prepare the journal entries to adjust goodwill.

(5 marks)

- 3** Larry Lam prepared a trial balance for his business on 31 December 2018. The trial balance failed to agree. The difference has already been entered into a suspense account.

In January 2019, the following errors made in 2018 were found:

- (i) A debit note of \$698 for goods returned by a customer had been credited twice in the returns outwards journal and debited twice to the trade payables ledger.
- (ii) Interest of \$200 on the company's fixed deposit account was wrongly entered as \$2,000 in the bank interest account.
- (iii) The debit side of the cash account had been undercast by \$3,090.
- (iv) In preparing the trial balance, the balance of a customer's account amounting to \$1,460 had been omitted from the list of trade receivables balances.
- (v) A cheque for \$19,400 was drawn by the business during December 2018 but had not yet been presented for payment.

*Required:*

- (a) Show the journal entries necessary to correct errors (i) to (v). Narrations are not required. (5 marks)
  - (b) Draw up the suspense account. (2 marks)
- (Total: 7 marks)

- 4** The following is the budgeted information of Product A, one of Cindy Co's products, for the next month:

Production and sales (units)	10,000	20,000
<i>Cost per unit:</i>	\$	\$
Direct labour	100	100
Indirect labour	40	26
Direct materials	17	17
Factory overheads	50	25
Selling and distribution costs	30	30

*Required:*

Assuming that the production level for the next month is 40,000 units, calculate the expected production costs for Product A. (8 marks)

## Section B (36 marks)

Answer **ALL** questions in this section.

**5** The bank column of Carol Lee's cash book showed a debit balance of \$710 on 30 September 2018, which did not agree with the balance on the bank statement on the same date. After investigation, the following discrepancies were revealed:

- (i) Cheques for \$98,100 were drawn by the business during the month but had not yet been presented for payment.
- (ii) A cheque issued to Susan Kwan for \$3,180 was correctly recorded in the bank statement but had been recorded in Carol's book as \$2,180.
- (iii) Receipt of cheque for \$890 was wrongly recorded on the credit side of the bank account as \$89.
- (iv) The total of the debit side of the bank account had been understated by \$1,100.
- (v) On 30 September 2018, the bank had paid on behalf of Carol Lee, under a banker's standing order, the rent for the business office, which amounted to \$60,000. This had not been entered in the cash book.
- (vi) On 30 September 2018, the owner deposited \$900 directly into the business bank account out of her own money. This item had not been entered in the cash book.
- (vii) Bank interest received of \$11 shown on the bank statement had not been entered in the cash book.
- (viii) A cheque of \$30,197 had been received from Mary Cheung on 28 September but had not yet been credited.

*Required:*

- (a) Update the bank column of the cash book. (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)
  - (c) Explain the purpose of preparing a bank reconciliation statement. (2 marks)
- (Total: 10 marks)

- 6** In November 2017, Jenny Limited introduced a new product called 'Anna'. It then prepared the following budget for its production for the years ended 31 December 2018 and 2019:

	2018	2019
Production and sales	6,000 units	20,000 units
Sales revenue	\$6,000,000	\$24,000,000
Direct materials	\$300 per unit	\$300 per unit
Direct labour	\$1,200,000	\$4,000,000
Variable production overheads per unit	\$250	\$250
Variable marketing overheads per unit	\$100	\$50
Fixed production overheads	\$2,000,000	\$2,000,000
Fixed marketing overheads	\$2,500,000	\$2,500,000

On 1 January 2020, the actual production and sales information for the past two years became available:

- (i) The production levels were as budgeted, while the sales level in 2018 was 20% lower than budgeted.
- (ii) Direct materials cost in 2019 was 20% higher than the budgeted amount.
- (iii) Variable marketing overheads in 2019 were \$30 per unit.

*Required:*

Prepare the income statements for the years ended 31 December 2018 and 2019 using the absorption costing methods. (12 marks)

(Calculations to the nearest dollar)

- 7** Johnson Limited commenced business on 1 August 2005. The following balances were extracted from the company's books as at 31 July 2019, the last day of the current financial year:

	\$
12% debentures, repayable in 2025	1,200,000
Accumulated depreciation: Office equipment	200,000
Accumulated depreciation: Premises	900,000
Accruals (excluding accrued interest)	15,000
Allowance for doubtful accounts	33,000
Bank	166,000
Debenture interest	72,000
General reserve	200,000
Interim ordinary dividend (\$0.02 per share)	?
Inventory as at 31 July 2019	336,000
Ordinary share capital	1,600,000
Office equipment, at cost	660,000
Premises, at cost	2,700,000
Prepayments	9,000
Profit before interest and tax	247,000
Retained profits	40,000
Trade payables	700,000
Trade receivables	1,160,000

Additional information:

- (i) There were 1,600,000 shares outstanding throughout the year.
- (ii) Profits tax for the year was estimated at \$30,400.
- (iii) The board of directors resolved to transfer \$50,000 to the general reserve.

*You are required to:*

- (a) Prepare an income statement extract for the year ended 31 July 2019. (5 marks)
  - (b) Prepare a statement of financial position as at 31 July 2019. (9 marks)
- (Total: 14 marks)

**Section C (20 marks)**

Answer **ONE** question in this section.

- 8** Alan, Betty and Carson were partners, sharing profits and losses in the ratio of 2 : 3 : 3, respectively. On 31 December 2018, the statement of financial position of the partnership was as follows:

<b>Alan, Betty and Carson</b>		
<b>Statement of Financial Position as at 31 December 2018</b>		
	\$	\$
<i>Non-current assets</i>		
Premises	1,617,250	
Less Accumulated depreciation	<u>1,246,900</u>	370,350
Office equipment	229,000	
Less Accumulated depreciation	<u>170,950</u>	58,050
Motor vehicles	300,000	
Less Accumulated depreciation	<u>245,000</u>	<u>55,000</u>
		483,400
<i>Current assets</i>		
Inventory	83,750	
Trade receivables	149,205	
Bank	<u>1,295</u>	
	234,250	
Less Current liabilities:		
Trade payables	<u>134,400</u>	
Net current assets		<u>99,850</u>
		583,250
Less Non-current liabilities:		
Bank loan	75,000	
Loan from Betty	<u>50,000</u>	<u>125,000</u>
		458,250
<i>Financed by:</i>		
Capital accounts:		
Alan	75,000	
Betty	175,000	
Carson	<u>200,000</u>	450,000
Current accounts:		
Alan	4,250	
Betty	6,750	
Carson	<u>(2,750)</u>	<u>8,250</u>
		458,250

On 1 January 2019, the partnership was dissolved on the following terms:

- (i) Alan took over all the trade receivables for \$132,550. Betty took over motor vehicles for \$30,000.
- (ii) Other assets were sold for the following amounts:
- |                  |         |
|------------------|---------|
|                  | \$      |
| Premises         | 500,000 |
| Office equipment | 45,501  |
- (iii) Trade payables were paid and a 4% discount was received.

- (iv) Carson was responsible for repaying the bank loan on behalf of the partnership.
- (v) Dissolution expenses were \$2,000.
- (vi) The balances of all the partners' current accounts were to be transferred to their respective capital accounts before any adjustment was to be made.

*Required:*

For the partnership of Alan, Betty and Carson, prepare the following accounts as at 1 January 2019:

- (a) Realisation account (7.5 marks)
  - (b) Bank account (4.5 marks)
  - (c) Partners' capital accounts in columnar form (8 marks)
- (Total: 20 marks)

- 9** Oxygen Technology Co is a local manufacturer, producing three products, O1, O2, and O3. The financial summary for the year ended 31 December 2019 is as follows:

	O1	O2	O3
Selling price per unit	\$5,000	\$2,000	\$1,000
Units produced and sold	400	600	800
Sales revenue	\$2,000,000	\$1,200,000	\$800,000
	\$	\$	\$
Direct materials	600,000	360,000	320,000
Direct labour	80,000	120,000	160,000
Variable manufacturing overheads	200,000	120,000	100,000
Fixed manufacturing overheads	200,000	200,000	200,000
Fixed non-manufacturing overheads	100,000	60,000	40,000
Total costs	<u>1,180,000</u>	<u>860,000</u>	<u>820,000</u>

Additional information:

- (i) Fixed manufacturing overheads are allocated equally to the three products.
- (ii) Fixed non-manufacturing overheads are allocated to the products based on their sales revenue.
- (iii) Total fixed overheads would remain unchanged as long as Oxygen Technology Co remains in operation.

*Required:*

- (a) Calculate the breakeven sales in units for each product using the weighted average approach. (11 marks)



As the total costs of Product O3 exceeded its sales revenue, the owner of Oxygen Technology Co decided to discontinue this product.

*Required:*

(b) Do you agree with the owner's decision? Explain your answer with calculations.

(9 marks)

(Round up to the nearest unit)

(Total: 20 marks)

**END OF PAPER 2A**