HKDSE
BAFS
(Nov 2016)
Paper 2A

Business, Accounting and Financial Studies

Mock Exam Paper (Nov 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.

Pearson

SECTION A (24 marks)

Answer **ALL** questions in this section.

1 Wong Kee Co is a manufacturing company. Budgeted production information for the month ended 31 March 2016 for 'Efficient', one of its products, is as follows:

Production and sales (units)	300,000	600,000
Cost per unit:	$	$
Direct labour	10	10
Indirect labour	22	18
Direct materials	55	55
Factory overheads	100	50
Selling and distribution expenses	60	45

Required:

Classify the above costs into: (5 marks)

(a) Fixed costs

(b) Variable costs

(c) Mixed costs

2 James Co had the following credit sales for the month of June 2016:

2016		
Jun	6	To Jenny Wong: List price $10,000. Less a $500 trade discount.
"	10	To Tony Lam: List price $20,000. Less a 7% trade discount.
"	13	To Larry Chan: List price $30,000. Less an 11% trade discount.
"	25	To Amy Lee: List price $25,000. Less a $1,200 trade discount.
"	28	To Ann Leung: List price $7,000. Less a 3% trade discount.

Required:

Write up the sales journal for the month of June 2016. (6 marks)

3 Jason Lam operates a trading business. The business has a financial year that ends on 31 December. On 8 January 2016, the annual inventory count was carried out and the inventory as at that date was valued at $212,000.

Upon investigation, the following information was discovered from the accounting records:

(i) Goods of $30,000 (at list price) were purchased on 5 January 2016. A trade discount of 5% was received.

(ii) Goods were sold for $80,000 during the period 1–7 January 2016. A uniform mark-up of 100% was applied to all goods sold.

(iii) On 4 January 2016, an inventory item costing $3,500 was returned to Lam Kee Co, a supplier. This item was purchased on 29 December 2015.

(iv) Goods with a selling price of $4,000 were returned by customers during the period 1–7 January 2016.

(v) An inventory item costing $8,800 was purchased on 1 January 2015. This item had become obsolete and could only be sold for 10% of its original cost. This item was recorded at cost in inventory valuation.

Required:

Prepare a statement to determine the value of inventory as at 31 December 2015.

(6 marks)

4 Anna, Bob and Carol are in partnership, sharing profits and losses in the ratio of 3 : 2 : 1. You are given the following information on the partnership for the year ended 31 March 2016:

(i) Net profit for the year: $3,500,000.

(ii) Interest on capital: 5% per annum, calculated based on the capital account balances at the beginning of the financial year.

(iii) Carol was entitled to a salary of $100,000 per annum.

(iv) Current account balances as at 1 April 2015: Anna $65,000, Bob $25,000, Carol $20,000.

(v) Capital account balances as at 1 April 2015: Anna $1,200,000, Bob $600,000, Carol $200,000.

Required:

Prepare for the partnership an income statement extract for the year ended 31 March 2016, showing the appropriation items. (7 marks)

Section B (36 marks)

Answer **ALL** questions in this section.

5 Joyce Sze operates a trading business. Her business's bank statement for July 2016 showed a debit balance of $121,335 as at 31 July 2016, which failed to agree with the cash book balance. After investigation, the following information was found:

(i) Joyce deposited a cheque of $21,000 as additional capital on 29 July 2016 but it did not appear in the bank statement.

(ii) Three cheques amounting to $1,358, $2,222 and $3,508, respectively, were deposited on 30 July 2016 but did not appear in the bank statement.

(iii) Two cheques drawn in July 2016 were not yet presented for payment: Tony Ko $6,660, Wong Kee Co $21,500.

(iv) Electricity fee of $3,500 paid by autopay were not recorded in the cash book.

(v) Fire insurance premium of $60,000 for two years ending 31 July 2018 was paid by direct debit. This transaction was not recorded in the cash book.

(vi) A cheque of $10,000 from Ning Kee Co was returned by the bank marked 'Dishonoured — Refer to the drawer'.

(vii) A cheque of $23,500 paid to Chan's Ltd, a trade creditor, was recorded on the debit side of the cash book and the credit side of Chan's Ltd's account.

(viii) Bank overdraft interest of $1,080 was not recorded in the cash book.

Required:

(a) Prepare a bank reconciliation statement as at 31 July 2016, commencing with the unadjusted cash book balance. (6 marks)

(b) Update the cash book. (3 marks)

(c) Prepare a bank reconciliation statement as at 31 July 2016, commencing with the bank statement balance and ending with the adjusted cash book balance. (3 marks)

(Total: 12 marks)

6 Caroline Cheng is a sole trader. You are given the following figures for her business for the year ended 30 June 2016:

Capital, 1 July 2015	$2,000,000
Capital introduced during the year	$650,000
Drawings during the year	$150,000
Return on capital employed	20%

Required:

(a) Prepare a statement of financial position extract as at 30 June 2016, showing the equity section. (4 marks)

You are given the following information relating to the income statement for the same year:

(i) The net profit ratio was 20%.

(ii) The gross profit ratio was 60%.

(iii) Half of the expenses were wages and salaries. Other operating expenses amounted to $8,000. The only other expense was rent and rates.

(iv) Inventory as at 1 July 2015 was valued at $20,000.

(v) The inventory turnover ratio for the year was 10 times.

Required:

(b) Prepare an income statement for the year ended 30 June 2016. (8 marks)

(Total: 12 marks)

7 Alice Ltd makes and sells a single product. The following information concerns the production and sales of this product:

Annual demand	1,000,000 units
Unit selling price	$50
Direct labour	$20 per unit
Direct materials	$5 per unit
Production overheads	$8,000,000
Non-production overheads	$8,000,000

Additional information:

(i) Variable production overheads amount to 25% of direct labour cost.

(ii) All non-production overheads are fixed.

Required:

(a) Calculate the unit contribution margin. (2 marks)

(b) Calculate the margin of safety in units. (4 marks)

Wah Kee, a machinery supplier, offers to provide Alice Ltd with machinery for $25,000,000 per year. Direct labour cost and variable production overheads would drop by 50% with the hiring of machinery. Fixed production overheads would be reduced by 60%. With improved product quality as a result of increased automation, the product's selling price can be increased by 20% without affecting the demand.

Required:

(c) Should Alice Ltd hire the machinery? Show all calculations. (6 marks)

(Total: 12 marks)

Section C (20 marks)

Answer **ONE** question in this section.

8 The following balances were extracted from the books of B&B Ltd as at 30 September 2016:

	Dr	*Cr*
	$	$
Office equipment, at cost	2,000,000	
Purchases	610,000	
Rent	250,000	
Trade receivables	180,000	
Wages and salaries	170,000	
Inventory, 1 October 2015	55,400	
Bank	17,995	
Auditor's fees	4,050	
Discounts allowed	2,900	
Sales		1,312,500
Ordinary share capital		1,036,245
Office equipment, accumulated depreciation		500,000
Retained profits		176,500
General reserve		100,000
Commission revenue		100,000
Trade payables		44,000
Discounts received		15,100
Allowance for doubtful debts		6,000
	3,290,345	3,290,345

Additional information:

(i) Inventory as at 30 September 2016 cost $130,000 but could only be sold for $106,500.

(ii) Salaries of $1,105 were accrued as at the year-end date.

(iii) The allowance for doubtful debts was to be kept at 5% of trade receivables.

(iv) The board of directors resolved to transfer $200,000 of profits to the general reserve.

(v) Depreciation on office equipment was to be charged using the reducing-balance method. The depreciation rate was 10% per annum.

(vi) Income tax expense was estimated to be $42,053.

Required:

(a) Prepare an income statement for the year ended 30 September 2016. (11.5 marks)

(b) Prepare a statement of financial position as at 30 September 2016. (8.5 marks)

(Total: 20 marks)

9 You are given the following figures on Victory Ltd for the year ended 31 December 2015:

Furniture and fixtures, at cost	$3,000,000
Furniture and fixtures, accumulated depreciation	$1,000,000
Vans, at cost	$2,000,000
Vans, accumulated depreciation	$700,000
Net sales	$5,000,000
Gross profit	$1,800,000
Operating expenses	$800,000
Inventory, 31 December 2015	$120,000
Cash at bank	$55,000
Trade receivables, 31 December 2015	$110,000
Trade payables, 31 December 2015	$160,000
Accrued expenses	$37,000
6% debentures, repayable on 1 January 2030	$600,000
Total equity, 31 December 2015 (including net profit for the year)	$2,788,000

Victory Ltd had only issued ordinary shares.

Required:

Calculate the following ratios for the year ended 31 December 2015:

(a) Current ratio (2 marks)

(b) Acid test ratio (2 marks)

(c) Gross profit ratio (2 marks)

(d) Net profit ratio (2 marks)

(e) Gearing ratio (2 marks)

(f) Total assets turnover (2 marks)

(Calculations to one decimal place)

The average ratios of other businesses in the same industry for the same year are as follows:

Current ratio	2.1 : 1
Acid test ratio	1.3 : 1
Gross profit ratio	15%
Net profit ratio	5%
Gearing ratio	55%
Total assets turnover	8.2 times

Required:

(g) Comment on the liquidity, profitability, solvency and management efficiency of Victory Ltd relative to competitors in the same industry. (8 marks)

(Total: 20 marks)

END OF PAPER 2A

