

**HKDSE**  
**BAFS**  
**(Mar 2017)**  
**Paper 2A**

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

### **Mock Exam Paper (Mar 2017)**

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.

**SECTION A** (24 marks)

Answer **ALL** questions in this section.

- 1** Julia & Co makes and sells a single product called "Julia". The product sells for \$700 each. Its production and other relevant costs are as follows:

<i>Per unit</i>	\$
Direct materials	100
Direct labour	200
Variable overheads	50

The projected sales level for the current year is 10,000 units. Budgeted fixed overheads for the year amount to \$2,835,000.

*Required:*

Calculate the following:

- (a) Break-even sales in units (2 marks)
- (b) Contribution margin ratio (2 marks)
- (c) Margin of safety ratio (2 marks)

(Calculations to the nearest unit or two decimal places)

(Total: 6 marks)

- 2** Derrick Wong operates a trading business, which has a financial year-end date of 31 December. As at 31 December 2016, inventory amounted to \$228,500. On 6 January 2017, a fire broke out at the business's warehouse and destroyed almost the entire inventory. Undamaged were goods costing \$180.

You are given the following information about Derrick's business:

- (i) A uniform mark-up of 50% was used to set the selling prices of goods.
- (ii) Sales between 1 January and 6 January 2017 amounted to \$106,500. All of these goods were already delivered to the customers.
- (iii) Purchases during the same period amounted to \$18,000, of which items costing \$2,500 were in transit at the time of the fire.
- (iv) Sales returns during the same period amounted to \$3,000 (at invoice value).
- (v) On 2 January 2017, goods with a selling price of \$600 were taken by Derrick for personal use.

*Required:*

Prepare a statement to compute the value of inventory lost in the fire. (6 marks)

- 3** On 4 February 2017, Michele Lam received the bank statement of her business bank account for January 2017. The bank statement showed a credit balance of \$3,245, which did not agree with the cash book balance.

After investigation, the following information was found:

- (i) Gary Cheung, a trade debtor, paid \$900 through direct credit without notifying Michele.
- (ii) Bank interest income of \$1 was shown in the bank statement but was not recorded in the cash book.
- (iii) The bank incorrectly debited bank charges of \$150 twice.
- (iv) A direct debit for insurance premiums of \$21,000 was not recorded in the cash book.
- (v) The following cheques issued by Michele were not yet presented to the bank: Linda Lee \$2,150, Jason Leung \$2,885, Vincent Ltd \$5,950.
- (vi) A cheque payment of \$2,300 to Ace Ltd, a trade creditor, was recorded as \$3,200 in the cash book.
- (vii) A cheque for \$10,000 deposited on 31 January 2017 did not appear in the bank statement.

*Required:*

- (a) Prepare a bank reconciliation statement as at 31 January 2017, commencing with the unadjusted cash book balance. (5 marks)
  - (b) Explain the purpose of preparing a bank reconciliation statement. (1 mark)
- (Total: 6 marks)

- 4** Anna Kwan prepared a trial balance for her business as at 31 March 2017, which failed to agree. A suspense account was opened to record the difference. The following errors were subsequently found:

- (i) On 15 January 2017, Anna bought goods with a list price of \$30,000 on credit from Lily Trading Ltd. A trade discount of 20% was given. The following entries were made to record the purchase: *Dr* Purchases \$30,000; *Cr* Lily Trading Ltd \$24,000; *Cr* Discounts received \$6,000.
- (ii) On 22 February 2017, Anna sold goods for \$2,000 to Jason Kwong in cash. The following entries were made to record the sales: *Dr* Jason Kwong \$2,000; *Cr* Sales \$2,000
- (iii) The sales journal was overcast by \$2,120.
- (iv) An electricity payment of \$5,873 was only recorded in the cash book.

*Required:*

- (a) Show the journal entries to correct the above errors. No narrations are required. (4 marks)
  - (b) Prepare the suspense account. (2 marks)
- (Total: 6 marks)

## Section B (36 marks)

Answer **ALL** questions in this section.

- 5** Lance Wong is a sole trader. His business had the following sales and sales returns transactions for the month ended 31 March 2017:

2017

- Mar 3 Sold goods for \$22,200 on credit to Rainbow Co, before deducting a trade discount of 2%.
- " 6 Sold goods for \$19,600 in cash to Rainbow Co, after deducting a trade discount of 2%.
- " 7 Sold goods for \$136,200 on credit to Wang Kee, before deducting a trade discount of \$6,200.
- " 10 Rainbow Co returned some goods purchased on 3 March 2017. These goods had a list price of \$5,000.
- " 13 Sold goods for \$16,000 on credit to Jerry Lee, before deducting a trade discount of 1%.
- " 21 Jerry Lee returned goods purchased on 13 March 2017 with an invoice value of \$990.
- " 23 Sold goods for \$21,500 on credit to Rainbow Co, after deducting a trade discount of \$215.
- " 28 Sold goods for \$130,000 on credit to Alison Ltd, before deducting a trade discount of 7%.

*Required:*

Prepare the following:

- (a) Sales journal (5.5 marks)
- (b) Sales returns journal (2.5 marks)
- (c) Rainbow Co's account (2 marks)
- (Total: 10 marks)

- 6 Chan, Lee and Cheung were partners, sharing profits and losses in the ratio of 40% : 35% : 25%. The following statement of financial position was prepared on 31 January 2017:

Chan, Lee and Cheung Statement of Financial Position as at 31 January 2017			
	\$	\$	\$
<i>Non-current assets</i>			
Premises, net book value			3,000,000
Office equipment, net book value			1,200,000
Motor vehicles, net book value			<u>800,000</u>
			5,000,000
<i>Current assets</i>			
Inventory		263,818	
Trade receivables	240,000		
Less Allowance for doubtful accounts	<u>9,600</u>	230,400	
Cash		<u>3,265</u>	
		497,483	
<i>Less Current liabilities:</i>			
Trade payables	103,769		
Bank overdraft	<u>15,000</u>	<u>118,769</u>	
Net current assets			<u>378,714</u>
			<u>5,378,714</u>
<i>Financed by:</i>			
Capital accounts:			
Chan		1,800,000	
Lee		1,200,000	
Cheung		<u>1,000,000</u>	4,000,000
Current accounts:			
Chan		897,541	
Lee		601,394	
Cheung		<u>(120,221)</u>	<u>1,378,714</u>
			<u>5,378,714</u>

On 1 February 2017, Lee withdrew from the partnership. The new profit and loss sharing ratio for Chan and Cheung became 7 : 3. As at the same date, certain assets were revalued as follows:

- Premises at 5% above its net book value
- Office equipment to \$1,000,000
- Motor vehicles to 70% of its net book value
- Inventory to \$252,618

The recoverable amount of trade receivables was estimated to be \$235,000. Goodwill was valued for the first time at \$1,000,000. It was agreed that no goodwill would be shown in the books of the new partnership. Lee agreed to leave his entire capital balance as a loan to the new partnership.

*Required:*

- (a) Prepare the revaluation account. (4 marks)
- (b) Draw up the partners' columnar capital accounts to reflect Lee's withdrawal. (8 marks)
- (Total: 12 marks)

- 7** Janet Sun's business makes and sells a single product. The following figures were budgeted for the years ended 31 December 2015 and 2016:

	2015	2016
Production and sales	10,000 units	15,000 units
Sales revenue	\$4,000,000	\$6,000,000
Direct materials	\$90 per unit	\$90 per unit
Direct labour	\$1,200,000	\$1,800,000
Variable production overheads	\$60 per unit	\$60 per unit
Variable marketing overheads	\$30 per unit	\$10 per unit
Fixed production overheads	\$500,000	\$500,000
Fixed non-production overheads	\$400,000	\$400,000

Actual data for 2015 and 2016 became available in January 2017. The following differences between the budget and actual data were found:

- (i) Production level was the same as that budgeted for both years.
- (ii) The number of units sold in 2015 and 2016 was 8,000 and 12,000, respectively.
- (iii) The selling price was 10% lower than budgeted for.
- (iv) Fixed non-production overheads for 2016 were 10% higher than the budgeted amount.

*Required:*

Based on the actual data, prepare income statements for the years ended 31 December 2015 and 2016 using the marginal costing method. (14 marks)

(Calculations to the nearest dollar)

### Section C (20 marks)

Answer **ONE** question in this section.

- 8** The following were extracted from the books of Iris Trading Ltd as at 31 March 2017, its financial year-end date:

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Sales and purchases	2,163,645	5,208,771
Premises, at cost	8,000,000	
Premises, accumulated depreciation		2,800,000
Trade receivables and trade payables	361,500	70,186
Auditor's remuneration	50,000	
Rent and rates	480,000	
Wages and salaries	1,360,444	
Inventory, 1 April 2016	115,400	
Bank	30,865	
Discounts	20,133	6,870
Ordinary share capital		3,484,380
Retained earnings		423,780
General reserve		500,000
Commission revenue		68,000
Allowance for doubtful debts		20,000
	<u>12,581,987</u>	<u>12,581,987</u>

Additional information:

- (i) Directors' remuneration of \$50,000 was accrued as at the year-end date.
- (ii) The allowance for doubtful debts was to be kept at 6% of trade receivables.
- (iii) The cost of inventory as at 31 March 2017 was \$183,190. Five items with a unit cost of \$600 could only be sold for \$200 each.
- (iv) Depreciation on premises was to be charged at 5% per annum using the straight-line method.
- (v) The board of directors decided to transfer \$500,000 to the general reserve.
- (vi) Profits tax was estimated to be \$81,590.

*Required:*

- (a) Prepare an income statement for the year ended 31 March 2017. (11.5 marks)
  - (b) Prepare a statement of financial position as at 31 March 2017. (8.5 marks)
- (Total: 20 marks)

- 9 You are given the financial statements of Anthony Ltd for the year ended 28 February 2017:

Anthony Ltd			
Income Statement for the year ended 28 February 2017			
		\$	\$
Sales			5,000,000
Less Cost of goods sold:			
Opening inventory	200,000		
Add Purchases	<u>2,000,000</u>		
	2,200,000		
Less Closing inventory	<u>400,000</u>		<u>1,800,000</u>
Gross profit			3,200,000
Add Other revenues:			
Commission income			<u>400,000</u>
			3,600,000
Less Expenses:			
Operating expenses	2,932,000		
Bank loan interest	<u>68,000</u>		<u>3,000,000</u>
Net profit			600,000
Less Income tax expense			<u>120,000</u>
Profit after tax			480,000
Add Retained profits brought forward			<u>110,000</u>
			590,000
Less Appropriations:			
Transfer to general reserve			<u>160,000</u>
Retained profits carried forward			<u><u>430,000</u></u>

Anthony Ltd			
Statement of Financial Position as at 28 February 2017			
		\$	\$
<i>Non-current assets</i>			
Premises, net book value			6,000,000
Motor vehicles, net book value			<u>2,200,000</u>
			8,200,000
<i>Current assets</i>			
Inventory		400,000	
Trade receivables	170,000		
Less Allowance for doubtful debts	<u>10,000</u>		
Bank		35,000	
Cash		<u>5,000</u>	
		600,000	
Less Current liabilities:			
Trade payables	60,000		
Accrued expenses	10,000		
Tax payable	120,000		
10% bank loan, repayable on 1 October 2017	<u>680,000</u>		
		<u>870,000</u>	
Net current liabilities			<u>(270,000)</u>
			<u><u>7,930,000</u></u>
<i>Financed by:</i>			
<i>Capital and reserves</i>			
Ordinary share capital			7,000,000
General reserve			500,000
Retained profits			<u>430,000</u>
			<u><u>7,930,000</u></u>

Required:

Calculate the following ratios for the year ended 28 February 2017:

- (a) Gross profit ratio (2 marks)
- (b) Net profit ratio (2 marks)



- (c) Quick ratio (2 marks)  
(d) Inventory turnover (2 marks)  
(e) Total assets turnover (2 marks)  
(Calculations to two decimal places)

The industry averages for the same year are as follows:

Gross profit ratio	23%
Net profit ratio	9%
Quick ratio	2.9 : 1
Inventory turnover	12 times
Total assets turnover	1 time

*Required:*

- (f) Comment on the profitability, liquidity and management efficiency of Anthony Ltd relative to its competitors in the industry. (6 marks)  
(g) Briefly explain two limitations of ratio analysis. (4 marks)  
(Total: 20 marks)

**END OF PAPER 2A**