

HKDSE
BAFS
(Nov 2017)
Paper 2A

Business, Accounting and Financial Studies

Mock Exam Paper (Nov 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** Jessica Chan uses a three-column cash book to record the cash and bank transactions of her business. On 1 September 2017, the balances in the cash book were: cash \$1,111 and bank overdraft \$2,222. The following transactions were made during the month of September 2017:

- Sept 2 Joseph & Co, a trade debtor, paid \$1,940 by cheque to settle its account. A cash discount of 3% was given.
- " 6 Issued a cheque to settle the account of Nina Co, a trade creditor. The amount owed was \$3,500 and a cash discount of 3% was received.
- " 11 Purchased furniture of \$10,000 from Best Furniture Co, with a cash deposit of \$1,000 paid.
- " 15 Jessica withdrew \$5,000 from the business bank account. Half of the amount was put in the cash box of the business, with the balance used to pay the electricity fees for Jessica's apartment.
- " 18 Settled the amount owed to Best Furniture Co by cheque.
- " 23 Paid wages of \$2,100 by cash.

Required:

Write up the cash book for September 2017.

(7 marks)

- 2** On 1 March 2014, Tai Ming Co purchased a printer for \$50,000. It was estimated that the printer would be used to print 2,000,000 pages and would have no scrap value at the end of its useful life. It was the firm's policy to charge depreciation on printers using the usage-based method. On 1 July 2017, the printer was sold to Joy Printing Co for \$10,000 in cash. Actual usage of the printer from 1 March 2014 to 30 June 2017 is shown as follows:

<i>Period</i>	<i>No of pages printed</i>
1 March 2014–31 December 2014	430,000
1 January 2015–31 December 2015	480,000
1 January 2016–31 December 2016	460,000
1 January 2017–30 June 2017	420,000

You are required to prepare the following accounts:

(a) Accumulated depreciation: Printers

(5 marks)

(b) Disposal: Printers

(2 marks)

(Total: 7 marks)

- 3** Max Ltd is a manufacturer. Fill in the blanks in (a) to (e) with the most suitable terms provided in the box below (each term can only be used once). (5 marks)

fixed cost	variable cost	mixed cost
sunk cost		opportunity cost

- (a) Manufacturing workers are paid a monthly wage of \$10,000 plus \$5 per unit produced. The payments to manufacturing workers are a/an _____.
- (b) The company is considering using machine A to produce product B. Machine A is currently used to produce product C. The profit earned on producing product C with machine A is the _____ of producing product B using that machine.
- (c) Machine A was purchased on 1 January 2015 for \$200,000. Its current market value is \$20,000. In deciding whether to sell this machine, its purchase cost of \$200,000 is a/an _____.
- (d) The factory rent is \$50,000 per month. This is an example of _____.
- (e) The packaging cost for product C is \$3 per unit. This is an example of _____.

- 4** Malcolm Lee operates a trading business. Jenny Wong, his cashier, failed to report to work and disappeared on 22 January 2017. The verified cash balance as at 31 December 2016 was \$25,951. Since then, the cash book had not been updated.

Upon investigation, Malcolm verified that the following cash transactions were made between 1 January 2017 and 21 January 2017:

	\$
Receipts from trade debtors	63,950
Payments to trade creditors	71,250
Cash purchases	3,650
Wages paid in cash	7,500
Cash taken by Malcolm	6,000
Cash banked	1,500

On 22 January 2017, there was only \$1 left in the cash box.

Required:

Prepare a statement to show the amount of cash misappropriated (if any). (5 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

- 5** Vicky Ltd produces two products: VC1 and VC2. For the coming financial year, Vicky Ltd plans to produce 10,000 units each of VC1 and VC2. The budgeted unit cost of production for the two products for the coming year is as follows:

	VC1	VC2
<i>Per unit</i>	\$	\$
Direct materials	125	150
Direct labour	130	20
Variable manufacturing overheads	50	55
Fixed manufacturing overheads	25	25
	<u>330</u>	<u>250</u>

Budgeted fixed manufacturing overheads are as follows:

	\$
Depreciation on machinery	100,000
Factory manager's salary	240,000
Factory rent and rates	160,000

Iris Ltd proposes to supply Vicky Ltd with VC1 and VC2. Details are as follows:

- Iris Ltd will sell 10,000 units of VC1 and 10,000 units of VC2 for \$5,750,000.
- If Vicky Ltd purchases the two products from Iris Ltd, the machinery now used by Vicky Ltd will be scrapped without any residual value.
- Vicky Ltd's factory will be closed. The tenancy agreement can be terminated at any time without penalty.
- The factory manager's employment will be terminated if the factory is closed. Vicky Ltd will need to pay compensation equivalent to two months' salary to the factory manager, who now earns \$20,000 per month.

Required:

- Should Vicky Ltd buy VC1 and VC2 from Iris Ltd? Show your calculations. (7 marks)
 - Suppose the machinery can be sold for \$80,000. Would Vicky Ltd's decision be the same? (3 marks)
 - When deciding whether to produce or buy VC1 and VC2, state one example of
 - relevant cost and (ii) irrelevant cost. (2 marks)
- (Total: 12 marks)

- 6** Jerry Lam operates a trading business. On 3 October 2017, the business received its bank statement for September 2017. The bank statement showed a debit balance of \$13,579 as at 30 September 2017. The cash book also showed a debit balance of \$13,579 as at the same date.

After investigation, Jerry identified several issues:

- (i) The following cheques issued by the business were not presented for payment:
 - To Chan's Co: \$5,150
 - To Lily Lam: \$3,188
 - To John Tam: \$1,390
- (ii) Electricity fees of \$3,228 were paid by autopay. This payment was not recorded in the cash book.
- (iii) Bank overdraft interest of \$320 was not recorded in the cash book.
- (iv) Joe Wang, a trade debtor, made a deposit of \$2,500 into the business bank account on 15 September 2017. This event was not recorded in the cash book.
- (v) Bank charges of \$400 were not recorded in the cash book.
- (vi) The cash book's debit opening bank balance for September 2017 was overstated by \$900.
- (vii) A cheque of \$23,456 received from David Chan, a trade creditor, was returned unpaid by the bank. No entries were made in the cash book.
- (viii) The cheque issued to Lily Lam (as stated in (i)) was recorded twice in the cash book.
- (ix) Cheque receipts of \$22,200 were deposited into the bank on 30 September 2017 but did not appear in the bank statement.
- (x) Dividends of \$60 were received by direct credit but were not recorded in the cash book.
- (xi) A payment of \$6,000 by standing order for fire insurance was not entered in the cash book.
- (xii) The cheque issued to John Tam (as stated in (i)) was recorded on the wrong side of the cash book.
- (xiii) A deposit of sales receipts totalling \$18,500 was correctly shown in the bank statement, but was entered as \$1,850 in the cash book.

Required:

- (a) Prepare a bank reconciliation statement, commencing with the bank statement balance. (9 marks)
 - (b) Is the bank reconciliation statement a financial statement? Name two types of financial statements (ignore the bank reconciliation statement). (3 marks)
- (Total: 12 marks)

- 7** Chan and Lee were partners in a trading business, sharing profits and losses equally. The balances were extracted from their books of account as at 30 June 2017, the financial year-end date:

	\$
Premises, at cost	5,000,000
Premises, accumulated depreciation	2,450,000
Motor vehicles, at cost	300,000
Motor vehicles, accumulated depreciation	108,000
Furniture and fixtures, at cost	600,000
Furniture and fixtures, accumulated depreciation	300,000
Inventory	123,450
Prepaid expenses	33,580
Trade receivables	96,000
Bank	66,200
Accrued expenses	5,800
Trade payables	559,000
Capital accounts: Chan	1,198,215
Lee	1,198,215
Loan from Chan (repayable in 2020)	400,000

On 1 July 2017, Lee decided to retire and Cheung was admitted to the partnership on the same date. Assets were revalued as follows:

Premises	50% of cost
Motor vehicles	90% of net book value
Furniture and fixtures	70% of cost
Inventory	\$120,000

An allowance for doubtful debts of 4% was to be created. Goodwill was to be valued at \$100,000. No goodwill account would be opened in the books of the new partnership.

Cheung deposited \$800,000 into the new partnership's bank account as her capital contribution. Profits and losses would be shared in the ratio of Chan 60% and Cheung 40%.

Lee agreed to leave one-fifth of her capital balance as a long-term loan to the new partnership. The remaining balance was settled by cheque.

You are required to prepare the following accounts in the books of the partnership:

- (a) Revaluation account (5 marks)
 - (b) Partners' capital accounts in columnar form (7 marks)
- (Total: 12 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

- 8** The accountant at Johnny Co prepared the following trial balance as at 31 October 2017, before preparing the financial statements:

Johnny Co		
Trial Balance as at 31 October 2017		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Buildings	2,000,000	
Office equipment	1,200,000	
Motor vehicles	800,000	
Accumulated depreciation: Buildings		1,300,000
Accumulated depreciation: Office equipment		432,000
Accumulated depreciation: Motor vehicles		188,000
Trade receivables and trade payables	135,000	69,800
Discounts	5,500	21,300
Cash at bank	22,350	
Carriage inwards	38,000	
Carriage outwards	12,000	
Wages and salaries	1,583,000	
Water and electricity	118,000	
Rates and management fees	180,000	
Purchases and sales	2,335,000	5,818,423
Returns	10,333	12,121
Suspense		5,000
Inventory, 1 November 2016	147,689	
Capital, 1 November 2016		740,228
	<u>8,586,872</u>	<u>8,586,872</u>

After investigation, the accountant found the following errors in the books:

- (i) On 1 November 2016, a motor vehicle was purchased for \$240,000. Included in the price was a transportation fee of \$4,500. This fee was treated as carriage for goods.
- (ii) Included in water and electricity were electricity payments of \$8,000 for Johnny's private apartment.
- (iii) A sales invoice of \$1,234 was posted to the trade debtor's account only.
- (iv) On 11 October 2017, the business issued a cheque of \$38,117 to settle the account of ANB Co, a supplier. The amount owed was \$40,000. The transaction was recorded as follows:

Dr ANB Co \$40,000

Dr Discounts allowed \$1,883

Cr Bank \$38,117

Required:

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

(5 marks)

- (b) Prepare the suspense account.

(2 marks)

- (c) State the accounting principle or convention that was violated in error (ii). If this error was not corrected, how would it affect the reported net profit for the year? (2 marks)

The following information for the year was given:

- (i) Inventory as at 31 October 2017 was valued at \$113,420.
- (ii) Depreciation policy:
 - Buildings: 5% on cost
 - Office equipment: 20% on net book value
 - Motor vehicles: 20% on cost
- (iii) The business decided to create an allowance for doubtful accounts at 3% of trade receivables.
- (iv) A bad debt of \$2,000 was to be written off.
- (v) Accrued expenses: water and electricity \$3,121, wages and salaries \$1,998.
- (vi) Prepaid expenses: rates \$20,000.

Required:

- (d) Prepare an income statement for the year ended 31 October 2017. (11 marks)
- (Total: 20 marks)

- 9 Nancy Chow, a sole trader, had prepared an income statement for her business for the year ended 30 June 2017. She prepared the following trial balance before drawing up a statement of financial position:

Nancy Chow		
Trial Balance as at 30 June 2017		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Equipment	3,000,000	
Accumulated depreciation: Equipment		400,000
Motor vehicles	420,000	
Accumulated depreciation: Motor vehicles		268,800
Net profit for the year		39,888
Trade receivables and trade payables	100,000	60,000
Inventory	50,000	
Allowance for doubtful accounts		6,000
Cash at bank	21,998	
Capital, 1 July 2016		2,626,875
Accrued expenses		45,869
Prepaid expenses	43,313	
Bank loan (repayable on 15 December 2017)		200,000
Drawings	12,121	
	<u>3,647,432</u>	<u>3,647,432</u>

Catherine Yeung, the accountant at Nancy Chow's business, found that the following mistakes had been made in the preparation of the income statement:

- Nancy wrote a cheque for \$10,000 from the business bank account to pay rent for her private apartment in advance. This was treated as prepaid rent in the books of the business.
- On 1 July 2016, the business purchased equipment for \$1,000,000. The market value of the equipment increased by 20% by the end of the year and Nancy recorded the increase in the value in the books. Depreciation on equipment was calculated based on the straight-line method at the rate of 10% per annum.
- On 28 June 2017, a customer ordered goods of \$85,000 and paid for them in full. The goods were scheduled to be delivered on 5 July 2017. Nancy recorded a sale of \$85,000 in the books. The cost of these goods, which amounted to \$22,000, was excluded from the inventory figure.
- An inventory item costing \$1,000 was damaged. It was estimated that the business would need to spend \$600 to repair this item before it could be sold at half of its cost price. This item was recorded in the books as \$1,000.

Required:

- Briefly state and explain the accounting principle or convention that was violated in each of the above situations. Then, for items (i) to (iii), state the correct accounting entries for those transactions. If no accounting entries are required, state so. For item (iv), state the accounting entries to correct the error. (8 marks)

- (b) Prepare a statement to correct the net profit figure for the year. (4 marks)
- (c) Prepare a statement of financial position as at 30 June 2017. (8 marks)
- (Total: 20 marks)

END OF PAPER 2A