HKDSE
BAFS
(Mar 2018)
Paper 2A

Business, Accounting and Financial Studies

Mock Exam Paper (Mar 2018)

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 Jason Wong operates a trading business. As at 30 June 2017, the inventory of the business was valued at $18,420.

On 7 July 2017, his firm's warehouse was damaged by a typhoon. The entire inventory was destroyed with the exception of an item costing $100. You are provided with the following information:

(i) On 2 July 2017, the business purchased goods costing $18,500 from Lily Trading Co. On 5 July 2017, it purchased goods costing $22,100 from Chan Kee Co. The goods purchased on 2 July 2017 were in transit on 7 July 2017.

(ii) All goods were sold at a uniform mark-up of 50%.

(iii) Sales between 1 July and 7 July 2017 amounted to $12,600. All of the goods had been delivered to the customers.

(iv) Sales returns during the same period amounted to $90.

(v) On 2 July 2017, goods with a selling price of $300 were taken by Jason as a gift for his friends.

(vi) An inventory item costing $100 was stated as $1,000 in the books as at 30 June 2017. This item was destroyed during the typhoon.

Required:

Compute the value of inventory destroyed on 7 July 2017. (6 marks)

2 Celia Chan is a manufacturer. The firm produces a single product. During the year ended 31 December 2017, the firm produced 10,000 units. There was no opening inventory, and all the units produced during the year, with the exception of five units, were sold for $300 each.

The product's cost information is as follows:

Direct materials	$100 per unit
Direct labour	$7 per unit
Variable manufacturing overheads	$10 per unit
Fixed manufacturing overheads	$50,000 per month
Variable marketing costs	$9 per unit
Fixed marketing costs	$160,000 per quarter

Required:

Prepare an income statement for the year ended 31 December 2017 using absorption costing. (6 marks)

3 Mark Ip had prepared a trial balance for his business before preparing the financial statements for the year ended 31 December 2017. The trial balance failed to agree. After investigations, the following errors were found:

(i) Anson Lam, a trade debtor, returned faulty items of $999 to Mark. This transaction was recorded twice in both the returns inwards journal and the trade receivables ledger.

(ii) A loan interest payment of $900 was entered as $9,000 in the bank account.

(iii) The cash balance was understated by $1.

(iv) Ella Ko, a trade debtor, owed the business $3,520. The balance of her account was omitted from the trade receivables total in the trial balance.

Required:

(a) Show the journal entries necessary to correct errors (i) to (iv). Narrations are not required. (4 marks)

(b) Draw up the suspense account. (2 marks)

(Total: 6 marks)

4 You are given Joy Ltd's trial balance as at 31 December 2017:

	Dr $	*Cr* $
Retained earnings	122,147	
Share capital		3,000,000
Equipment		2,000,000
Accumulated depreciation: Equipment	600,000	
Unearned revenues		34,800
Accrued expenses	123,456	
Trade receivables	48,978	
Prepaid expenses	113,913	
Trade payables		11,070
Cash at bank	1,728,582	
Suspense	2,308,794	
	5,045,870	5,045,870

Required:

(a) Prepare a corrected trial balance as at the same date. (5 marks)

(b) State a limitation of the trial balance. (1 mark)

(Total: 6 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

5 Tommy Ltd manufactures and sells four products: A, B, C and D. Budgeted information for the four products for the year ended 31 October 2017 is as follows:

Per unit:	*Product A*	*Product B*	*Product C*	*Product D*
Selling price	\$100	\$200	\$300	\$400
Direct materials	\$50	\$50	\$150	\$150
Direct labour	\$20	\$40	\$80	\$160
Fixed production overheads	\$30	\$30	\$30	\$30

Additional information:

(i) Variable production overheads are absorbed at 10% of direct labour cost.

(ii) The wage rate of direct labour is \$20 per hour.

(iii) All marketing and other expenses are fixed.

Required:

(a) Given that direct labour hours are a limiting factor, state the production priority for the products that would maximise profits. Support your answer with calculations. (5 marks)

Given that Tommy Ltd has 30,000 direct labour hours available for the year. The estimated demand is 8,000 units for each of the products. Estimated total fixed costs amount to \$1,000,000.

Required:

(b) Prepare a statement to calculate the budgeted net profit for the year. (7 marks)

(Total: 12 marks)

6 On 3 January 2018, Joe Lee received the December 2017 bank statement of his business bank account. The closing balance stated in the bank statement does not agree with the cash book balance. The bank statement showed a credit balance of $69,899 as at 31 December 2017.

After investigation, Joe Lee found that the disagreement was due to the following items:

(i) On 29 December 2017, Joe deposited a cheque of $50,000 into the business bank account as a capital contribution. The cheque was cleared by the bank on 2 January 2018.

(ii) Lily Lam, a trade debtor, sent in a cheque for $1,234 on 28 December 2017. The cheque was deposited in the bank on 30 December 2017 but did not appear in the December 2017 bank statement.

(iii) Two of the cheques drawn in December 2017 were not yet presented for payment: Colour Trading Co $5,555, XY Ltd $11,100.

(iv) A cheque for $4,342 was sent to Nam Kee, a trade creditor, on 30 December 2017. When recording this transaction in the books, the accounting entries were reversed.

(v) Property insurance premiums of $100,000 for two years starting from 1 July 2018 were paid by direct debit on 27 December 2017. This transaction was not recorded in the cash book. The current financial year ended on 31 March 2018.

(vi) The debit balance of the cash book brought down from 30 November 2017 was overstated by $2. A suspense account was opened following the preparation of a trial balance on 1 December 2017.

(vii) Water charges of $6,310 were paid by autopay. This transaction was not recorded in the cash book.

(viii) A cheque for $2,120 drawn by CC Ltd was returned by the bank unpaid. This event was not recorded in the cash book.

Required:

(a) Prepare a bank reconciliation statement as at 31 December 2017, commencing with the bank statement balance. (6 marks)

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

(c) Prepare a bank reconciliation statement as at 31 December 2017, commencing with the adjusted cash book balance. (3 marks)

(Total: 12 marks)

7 The following information was extracted from the books of Honest Ltd as at 31 December 2016 and 2017:

	2016	*2017*
Trade receivables	$454,210	$405,813
Trade payables	$56,070	$97,866
Bank / (Bank overdraft)	($44,604)	$305,132
Inventory	$810,491	$902,500
Property, plant and equipment, at cost	$3,000,000	$3,000,000
Property, plant and equipment, accumulated depreciation	$750,000	$900,000
Retained profits	$977,390	$1,143,219
Cash in hand	$23,363	$27,640
5-year bank loan, repayable on 30 June 2018	$500,000	$500,000

Additional information:

(i) The company was incorporated on 1 January 2007 with issued share capital of $2,000,000. There had been no change in the amount of capital.

(ii) Inventory, trade receivables and retained profits as at 31 December 2015 were $90,688, $313,250 and $517,440, respectively.

(iii) Net sales for the years ended 31 December 2016 and 2017 were $2,988,630 and $2,813,741, respectively. There were no cash sales.

(iv) No dividend was paid in 2016 and 2017.

(v) Gross profit for the years ended 31 December 2016 and 2017 were $2,030,899 and $1,998,173, respectively.

Required:

(a) Calculate the following ratios for 2016 and 2017 (assuming that there were 365 days in both years): (8 marks)

(i) Net profit ratio

(ii) Acid test ratio

(iii) Trade receivables turnover

(iv) Average inventory holding period (days)

(b) Briefly comment on the change in profitability and liquidity over the two-year period. (4 marks)

(Calculations to two decimal places)

(Total: 12 marks)

Section C (20 marks)

Answer **ONE** question in this section.

8 The following balances were extracted from the books of Chan & Lee as at 31 December 2017, the last day of the financial year:

	Dr ($)	*Cr* ($)
Purchases and sales	2,203,550	6,180,764
Trade receivables and trade payables	613,100	40,000
Capital: Chan		500,000
Capital: Lee		2,000,000
Current: Chan		369,104
Current: Lee		261,450
Inventory, 1 January 2017	113,807	
Bank	280,000	
Cash	3,456	
Allowance for doubtful debts, 1 January 2017		10,500
Office equipment	3,500,000	
Furniture and fixtures	1,000,000	
Accumulated depreciation: Office equipment		1,400,000
Accumulated depreciation: Furniture and fixtures		488,000
Salaries and wages	1,994,208	
Rent and rates	1,200,000	
Other operating expenses	341,697	
	11,249,818	11,249,818

Additional information:

(i) Chan and Lee have shared profits and losses equally since 1 January 2013, when the partnership was formed. Lee earns a salary of $10,000 per annum.

(ii) Inventory as at 31 December 2017 was valued at $64,130.

(iii) On 1 July 2016, a motor vehicle was purchased for $260,000 by cheque. The motor vehicle was used to deliver goods to customers. It was estimated that the motor vehicle could be driven for 800,000 kilometres and would have a scrap value of $20,000. No entries were recorded in respect of this transaction in the books of the business. The motor vehicle travelled 93,500 kilometres and 110,000 kilometres in 2016 and 2017, respectively. The error was discovered when preparing the financial statements for the year ended 31 December 2017.

(iv) Depreciation on office equipment was to be charged at a rate of 20% per annum using the straight-line method. Depreciation on furniture and fixtures were to be charged at a rate of 20% per annum using the reducing-balance method.

(v) Rent of $40,000 for 2018 was prepaid in December 2017.

(vi) Accrued wages amounted to $1,331.

(vii) The allowance for doubtful debts was to be maintained at 1% of trade receivables.

(viii) No interest would be paid on partners' capital.

You are required to prepare the following for the partnership:

(a) An income statement for the year ended 31 December 2017 (8.5 marks)

(b) A statement of financial position as at 31 December 2017 (11.5 marks)

(Total: 20 marks)

9 You are the accountant at YCC Ltd. As you were preparing an income statement for the company for the year ended 31 December 2017, you faced the following problems:

(i) Four of the inventory items, which had been recorded at cost, were found to be damaged:

Item 1: This item cost $900. The company needed to spend $200 on repairs before the item could be sold for $1,300.

Item 2: This item cost $900. Its original selling price was $1,800. It could now be sold at a 40% discount after being damaged.

Item 3: This item cost $2,000. Its original selling price was $4,000. It could now be sold for $2,100 after repairs costing $300.

Item 4: This item cost $3,000. Its original selling price was $8,000. It could only be sold at a 90% discount after being damaged.

(ii) On 30 December 2017, Tai Man Co placed an order to purchase goods for $4,000 on credit. The goods were to be delivered on 2 January 2018. You had already recorded this transaction as a sale in the books. However, you were not sure if this was correct. Also, those items had been included in the inventory as at 31 December 2017, as they were not delivered. These items were recorded at selling price as they were to be delivered soon. The mark-up for these goods was 100%.

(iii) On 1 January 2017, two motor vehicles were purchased for $50,000 each from Great Motors. One of the motor vehicles was purchased for resale purposes, while the other one was used to deliver goods to customers. You recorded both of these motor vehicles as non-current assets. Depreciation on motor vehicles was charged using the reducing-balance method, at the rate of 20% per annum.

Required:

(a) State the correct accounting treatment for each of the above situations and briefly explain your answer. (Ignore the errors that you made, if any.) (13 marks)

(b) The draft net profit for the year was $100,000. Prepare a statement to calculate the correct net profit figure. (4.5 marks)

(c) The inventory as at 31 December 2017 was valued at $88,300. Prepare a statement to calculate the correct inventory value. (2.5 marks)

(Total: 20 marks)

END OF PAPER 2A

