

HKDSE
BAFS
(Nov 2018)
Paper 2A

Business, Accounting and Financial Studies

Mock Exam Paper (Nov 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** Joyce Lau, a sole proprietor, was preparing the financial statements for her business for the year ended 30 June 2018. She asked you, her business's external accountant, the following questions:

- (i) "On 1 January 2018, I paid fire insurance premiums of \$24,000 to the insurance company to cover our office premises for the two years ending 31 October 2019. How much of the insurance premiums should be included in the income statement for this year?"
- (ii) "Our business had trade receivables totalling \$80,000 as at the year-end date. It is estimated that an allowance of 4% will be sufficient. The allowance for doubtful debts account already has a balance of \$4,000. How should I show this allowance in the income statement and the statement of financial position?"

Required:

Answer the above questions for Joyce Lau. Show all calculations.

(6 marks)

- 2** Jason Wong operates a retail business. On 1 October 2016, he expanded his business by acquiring a store. Details are as follows:

- (i) The seller of the store gave a 2% discount on the asking price of \$500,000.
- (ii) Jason spent \$6,000 on repairing the store's walls.
- (iii) Jason took out insurance coverage on the store and paid one year's insurance premium of \$12,000 to AA Insurance Ltd.
- (iv) Legal fees of \$10,000 were incurred in the acquisition of the store.

Required:

- (a) Compute the capital expenditure incurred in the acquisition of the store. (3 marks)
- (b) Given that the store is to be depreciated at a rate of 10% per annum using the reducing-balance method, calculate the amount of depreciation to be charged on the store for the year ended 30 September 2018. (2 marks)

(Total: 5 marks)

- 3** Gary Ltd produced a single product. The business produced 30,000 units during the year ended 31 March 2018. One thousand units remained unsold at the end of the financial year, with each of the units sold for \$500 each. There was no opening inventory.

Cost information is as follows:

Direct labour cost	\$35 per hour
Direct materials cost	\$12 per kg
Direct labour	2 hours per unit produced
Direct materials	5 kg per unit produced
Variable manufacturing overheads	\$10 per unit produced
Fixed manufacturing overheads	\$50,000 per month
Variable marketing costs	\$10 per unit sold
Fixed marketing costs	\$1,000,000 per quarter

Required:

Prepare an income statement for the year ended 31 March 2018 using absorption costing. (6 marks)

- 4** Louise Lam keeps a three-column cash book for her business. As at 1 January 2018, the balances of the cash column and the bank column were \$10,008 and \$15,193, respectively. Both of the columns had normal balances on that date. The business had the following transactions in January 2018:

Jan	2	Paid a cheque of \$7,600 to fully settle the account of Adam Co, a trade creditor. A discount of \$400 was received.
"	5	Fully settled the account of Bee Co, a trade creditor, in cash. The amount owed was \$10,000. A discount of 2% was received.
"	9	Made cash sales of \$2,500.
"	20	Carol Co, a trade debtor, settled its account of \$500 in cash. It was given a discount of \$10.
"	28	Louise kept \$1,000 in the cash box of the business and deposited the rest of the cash in the business bank account.

Required:

Draw up the cash book for the month of January 2018. (7 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

- 5** Celia Chan is a sole trader. On 5 October 2018, she received the bank statement for the business bank account for the month of September 2018. The bank statement showed a credit balance of \$50,288 as at 30 September 2018.

The following information was revealed after investigation:

- (i) The following cheques issued by the business were not presented for payment:
 - #13188 (dated 11 September 2018): \$2,520
 - #11209 (dated 5 August 2018): \$1,125
 - #09688 (dated 1 February 2018): \$440Cheques that have been outstanding for more than six months will not be honoured by the bank.
- (ii) Rates of \$24,000 were paid by autopay. This payment was not recorded in the cash at bank account. One-fourth of the rates were related to the next financial year.
- (iii) Deposit interest of \$690 credited by the bank was not recorded in the cash at bank account.
- (iv) Chan's Co, a trade debtor, deposited \$5,000 into the business bank account to repay its outstanding debt. This event was not recorded in the cash at bank account. The debt of Chan's Co was written off in 2015.
- (v) Bank charges of \$1,250 debited by the bank were not recorded in the cash at bank account.
- (vi) The cash at bank account had a debit balance of \$10,000 as at 31 August 2018 but was wrongly brought down as a credit balance of \$10,000.
- (vii) A cheque of \$210 drawn by C C Ltd, a trade debtor, was returned by the bank. No entries were made in the cash at bank account.
- (viii) Cheque #11209 was recorded on the wrong side of the cash at bank account.
- (ix) A cheque of \$5,689 drawn by Candy Ltd, a trade debtor, was deposited into the business bank account on 29 September 2018. This cheque did not appear in the bank statement.
- (x) Commission revenue of \$1,600 was received by direct credit but was not recorded in the cash at bank account.
- (xi) Trade subscription fees of \$20,000 were paid by standing order. This event was not entered in the cash at bank account.
- (xii) A cheque payment of \$1,100, which appeared in the bank statement, was recorded twice in the cash and bank account.
- (xiii) A deposit of sales receipts totalling \$12,000 was correctly recorded in the bank statement, but was omitted from the cash at bank account.

Required:

- (a) Prepare a bank reconciliation statement, commencing with the unadjusted cash at bank account balance. (8 marks)
 - (b) Suggest three reasons for the returned cheque mentioned in (vii). (3 marks)
- (Total: 11 marks)

- 6** Chan, Pang and Au were partners, sharing profits and losses in the ratio of 5 : 3 : 2. The following statement of financial position was prepared on 30 June 2018:

Chan, Pang and Au			
Statement of Financial Position as at 30 June 2018			
	\$	\$	\$
<i>Non-current assets</i>			
Premises, net book value			1,200,000
Fixtures and fittings, net book value			625,000
Motor vehicles, net book value			<u>138,000</u>
			1,963,000
<i>Current assets</i>			
Inventory		22,880	
Trade receivables	15,000		
Less Allowance for doubtful debts	<u>450</u>	14,550	
Cash and bank		<u>88,980</u>	
		126,410	
<i>Less Current liabilities:</i>			
Trade payables		<u>240,040</u>	
Net current liabilities			<u>(113,630)</u>
			<u>1,849,370</u>
<i>Financed by:</i>			
Capital accounts:			
Chan		1,000,000	
Pang		600,000	
Au		<u>400,000</u>	2,000,000
Current accounts:			
Chan		19,470	
Pang		(61,100)	
Au		<u>(109,000)</u>	<u>(150,630)</u>
			<u>1,849,370</u>

On 1 July 2018, Au withdrew from the partnership. The new profit and loss sharing ratio of Chan and Pang became 5 : 3. The following assets were revalued as follows:

- (i) Premises to \$500,000
- (ii) Fixtures and fittings to 50% of the net book value
- (iii) Motor vehicles to 50% of the original cost of \$200,000
- (iv) Inventory to \$16,500

The allowance for doubtful debts was to be maintained at 2% of trade receivables. Goodwill was valued at \$202,000. It was agreed that goodwill would not be shown in the books of the new partnership. Au agreed to leave his entire capital as a loan to the partnership for 10 years at an interest of 8% per annum.

Required:

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

- 7** Darren Li's business produces three products: "Apple", "Banana" and "Cherry". Cost information is as follows:

	<i>Apple</i>	<i>Banana</i>	<i>Cherry</i>
<i>Per unit:</i>			
Selling price	\$600	\$1,000	\$1,440
Direct labour (\$40 per hour)	3 hours	2 hours	1 hour
Direct materials (\$5 per gram)	48 grams	80 grams	208 grams

Each of the products has a budgeted demand of 2,000 units per month. Fixed costs amount to \$200,000 per month.

Required:

- (a) Calculate the contribution margin per unit for each product. (3 marks)
 - (b) Given the following independent situations, calculate the optimum production plan:
 - (i) Only 9,000 direct labour hours are available per month (5 marks)
 - (ii) Only 250,000 grams of direct materials are available per month (5 marks)
- (Calculations to two decimal places)

(Total: 13 marks)

Section C (20 marks)

Answer **ONE** question in this section.

- 8** The trial balance of Lily Co as at 31 October 2018, the last day of the current financial year, failed to agree. A suspense account was opened to record the difference. The draft income statement showed that net profit for the year amounted to \$123,456. All products were being sold with a uniform mark-up of 100%.

After investigation, the following information was revealed:

- (i) Commission revenue of \$500 was debited to both the cash account and the commission revenue account.
- (ii) An inventory item with a list price of \$3,456 was damaged. It could only be sold for \$100. No entries were made in respect of this damaged item.
- (iii) Rentals of the owner's apartment totalling \$80,000 were paid through the business bank account. They were recorded as a rent expense of the business.
- (iv) A cash discount of \$1,250 given to a trade debtor was treated as a trade discount.
- (v) Lily Chow, the owner of the business, took goods with a selling price of \$5,000 for her personal use. This event was wrongly treated as a credit sale to Nina Co.
- (vi) The sales journal was undercast by \$1,250.
- (vii) An accrual for rent and rates of \$12,000 was wrongly treated as a prepayment.
- (viii) Prepaid electricity fees of \$500 as at 31 October 2017 were brought forward as a credit balance in the water and electricity account.

Required:

- (a) Prepare the necessary journal entries to correct the above errors. (Narrations are not required.) (12 marks)
 - (b) Prepare the suspense account. (2 marks)
 - (c) Prepare a statement to correct the net profit for the year ended 31 October 2018. (6 marks)
- (Total: 20 marks)

- 9 The following trial balance is extracted from the books of Ivan Ltd as at 31 October 2018:

Ivan Ltd		
Trial Balance as at 31 October 2018		
	\$	\$
Ordinary shares		2,980,000
Returns	7,338	12,198
General reserve		600,000
Allowance for doubtful debts		3,180
10% debentures (repayable on 30 June 2019)		600,000
Equipment, at cost	8,000,000	
Furniture, at cost	1,250,000	
Accumulated depreciation:		
Equipment		980,000
Furniture		396,000
Bank		51,500
Carriage inwards	38,980	
Commission revenue		165,388
Directors' remuneration	140,000	
Interim dividend	59,600	
Inventory, 1 November 2017	412,000	
Purchases and sales	1,890,540	7,470,020
Other operating expenses	66,000	
Retained earnings		1,107,806
Salaries and wages	3,736,004	
Trade receivables and trade payables	456,710	681,080
Suspense		1,010,000
	<u>16,057,172</u>	<u>16,057,172</u>

Additional information:

- (i) Inventory as at 31 October 2018 was valued at \$115,558.
- (ii) No debenture interest was paid during the year.
- (iii) Ordinary shares of \$1,000,000 were issued at 28 October 2018. There was no over- or under-subscription. To record this event, the company only debited the bank account with the subscription monies received.
- (iv) A cash sale transaction for \$5,000 was debited to the salaries and wages account and the cash account. No other entries were made.
- (v) Depreciation to be charged:
 - Equipment: 10% per annum on cost
 - Furniture: 30% per annum by the reducing-balance method
- (vi) The allowance for doubtful debts was to be maintained at 10% of trade receivables.
- (vii) On 31 October 2018, the board of directors resolved to transfer \$100,000 to the general reserve.
- (viii) Profits tax for the year amounted to \$42,540.
- (ix) The board proposed that a final dividend of \$89,400 be paid on 31 March 2019.

You are required to prepare for Ivan Ltd the following:

- (a) An income statement for the year ended 31 October 2018; and (12 marks)
- (b) A statement of financial position as at the same date. (8 marks)

(Total: 20 marks)

END OF PAPER 2A