

HKDSE
BAFS
(Mar 2020)
Paper 2A

Business, Accounting and Financial Studies
Mock Exam Paper (Mar 2020)

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** Larry Company plans to sell 5,000 pieces of equipment next year. The expected selling price for each piece is \$500. Budgeted financial information is shown as follows:

	\$
Direct labour per piece	100
Direct materials per piece	40
Variable production overheads per piece	25
Sales commission per piece	35
Fixed production overheads per year	500,000
Fixed selling and administrative expenses	200,000

Required:

- (a) Calculate the contribution margin per piece of equipment. (2 marks)
- (b) How much sales revenue does Larry Company have to earn in order to make a profit of \$500,000? (2 marks)

(Total: 4 marks)

- 2** When accountants prepare financial statements for businesses, they always need to consider the 'going concern assumption'.

Required:

- (a) Briefly explain the going concern assumption. (2 marks)
- (b) If a business is no longer a going concern, how would the value of its non-current assets be stated? (1 mark)

Albert Ltd purchased premises for \$5,000,000 five years ago. The premises would continue to be used by the business, while its current market value increased to \$20,000,000. The board of directors decided to record the revaluation gain of \$15,000,000 in the books of the business.

Required:

- (c) Identify the accounting principle or convention being violated. Briefly explain your answer. (2 marks)

(Total: 5 marks)

- 3** Terry Co calculates the predetermined overhead absorption rate for the business based on machine hours. At the end of March 2019, it is estimated that 60,000 machine hours would be used during the next financial year. Estimated fixed production overheads for the year would be \$720,000, while variable production overheads would be \$5 per machine hour throughout the year.

Actual production overhead for the year amounted to \$1,000,000 and the actual number of machine hours was 50,000 hours.

Required:

- (a) Calculate the predetermined overhead absorption rate for the year ended 31 March 2020. (2 marks)
 - (b) Is there any over-absorption or under-absorption for the year? Show your calculations. (2 marks)
 - (c) Based on your answer in (b), state the accounting treatment and its impact on the net profit for the year ended 31 March 2020. (2 marks)
 - (d) State an example of a variable manufacturing cost which would increase with an increase in machine hours. (1 mark)
- (Total: 7 marks)

- 4 The cash book extract of Jason Co as at 31 December 2019 is shown as follows:

Cash at Bank							
2019			2019				
		\$			\$		
Dec	1	Balance b/d	25,000	Dec	5	Joey Ltd	3,117
"	3	Lily Co	1,318	"	8	Rates	2,400
"	11	Chan Kee	2,222	"	14	Leung's Co	850
"	20	Lee Kee	5,108	"	21	Law's Ltd	1,150
"	31	Amy Co	8,041	"	31	Balance c/d	34,172
			<u>41,689</u>				<u>41,689</u>

The bank statement for the month is shown as follows:

<i>Date</i>	<i>Description</i>	<i>Withdrawal</i>	<i>Deposit</i>	<i>Balance</i>
2019		\$	\$	\$
Dec	1 Balance b/d			25,000
"	3 Cheque deposit		1,318	
"	11 Chan Kee		2,222	
"	12 Direct debit – Electricity	776		
"	14 Refer to drawer	2,222		
"	15 Cheque – Rates	2,400		
"	16 Nick Co		10,000	
"	22 Cheque deposit		5,108	
"	23 Cheque deposit		1,150	
"	25 Cheque – Joey Ltd	3,117		
"	31 Bank charges	500		

Additional information:

- Nick Co, a trade debtor, directly deposited the amount owed without notifying Jason Co.
- The cheque received from Law's Ltd during the month was wrongly recorded as a cheque payment.

Required:

- Update the cash at bank account for Jason Co. (5 marks)
 - Prepare the bank reconciliation statement as at 31 December 2019, commencing with the updated cash book balance. (3 marks)
- (Total: 8 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

- 5** Tracy Lee operates a trading company. The following balances were extracted from the books of the business as at 31 March 2019:

	\$
Motor vehicles	100,000
Accumulated depreciation: Motor vehicles	20,000

All the motor vehicles were purchased on 1 April 2018. Useful life of the motor vehicles was expected to be five years. Depreciation was calculated based on the straight-line method, and it is assumed that the motor vehicles would have no scrap value at the end of their useful life.

During the year ended 31 March 2020, the following transactions occurred:

- (i) On 1 July 2019, one of the motor vehicles costing \$40,000 was sold. A disposal gain of \$1,000 was earned in this transaction.
- (ii) On 1 October 2019, two motor vehicles were destroyed in a fire. Accumulated depreciation of the motor vehicles as at 31 March 2019 amounted to \$4,000. On 1 February 2020, the insurance company agreed to compensate half of the loss incurred, calculated based on the net book value of the motor vehicles. The payment was expected to be made in April 2020.

Required:

Prepare the following accounts for Tracy Lee's business for the year ended 31 March 2020 (assuming that depreciation expenses would be calculated on a monthly basis):

- (a) Motor vehicles (2 marks)
- (b) Accumulated depreciation: Motor vehicles (4 marks)
- (c) Disposal: Motor vehicles (4 marks)

On 1 April 2020, \$100,000 was spent on upgrading motor vehicles parts, so as to improve their efficiency throughout their useful life. A cheque of \$5,000 was paid for annual license fees of the motor vehicles as at the same date. Estimated useful life of the motor vehicles remained unchanged.

Required:

- (d) Prepare the journal entries to record the above transactions. Narrations are not required. (2 marks)
- (Total: 12 marks)

- 6** Before preparing the closing entries, Sam Ltd prepared the trial balance as at 31 March 2020, which failed to agree. A suspense account was already opened to reconcile the difference.

After investigation, the following errors were found:

- (i) Goods of \$1,000 were returned to a supplier. Both the trade payables account and the returns inwards account were debited to record this transaction.
- (ii) A purchase invoice for credit purchase was overstated by \$500.
- (iii) Discounts allowed of \$20 were omitted in the books.
- (iv) A cash sale of \$10,000 to Jayden Co was recorded in the sales journal as \$11,000 and posted to the relevant journal accordingly. No entries were made in the cash book to record the above transaction.

Required:

- (a) Prepare the entries to correct the above errors. Narrations are not required. (5 marks)

The following balances were extracted from the books of the business as at 31 March 2020, before correcting the above errors:

	\$
Preference share capital	1,000,000
Ordinary share capital	2,000,000
Retained earnings, 1 April 2019	500,000
Bank loan (repayable on 1 January 2025)	100,000

Drafted net profit for the year amounted to \$100,000 (before accounting for the above errors). No dividend was declared or distributed during the year.

Required:

- (b) Prepare a statement to calculate the retained earnings as at 31 March 2020, showing the corrected net profit for the year. (4 marks)
- (c) Calculate (to two decimal places) the gearing ratio for the year. (3 marks)
- (Total: 12 marks)

- 7 Chan, Lee and Cheung had been in partnership, sharing profits and losses in the ratio of 3 : 2 : 5. The statement of financial position of the partnership as at 31 December 2019 is shown below:

Chan, Lee and Cheung		
Statement of Financial Position as at 31 December 2019		
	\$	\$
<i>Assets</i>		
Office equipment, net		500,000
Trade receivables		63,000
Inventory		38,000
Bank		59,000
		<u>660,000</u>
<i>Liabilities</i>		
Loan from Cheung	100,000	
Trade payables	<u>27,500</u>	<u>127,500</u>
		<u>532,500</u>
<i>Financed by:</i>		
Capital accounts: Chan		300,100
Lee		7,400
Cheung		<u>225,000</u>
		<u>532,500</u>

Lee declared bankruptcy on 1 January 2020. The partnership was being dissolved on the same day. Details were as follows:

- The office equipment was taken over by Chan at 70% of its net book value.
- Cheung took the inventory to settle 20% of the loan from him. The remaining amount of the loan was paid to him by cheque.
- Chan collected \$55,000 from the trade receivables. A commission of 1% (based on the amount collected) was paid to him.
- Cheung settled all the trade payables on behalf of the partnership. A discount of 2% was given to the partnership.
- Dissolution fees of \$10,000 were paid by cheque.
- Lee was unable to settle the amount owed. The remaining partners shared his capital deficiency according to the profit and loss sharing ratio.

Required:

Prepare the following accounts:

- Realisation (6 marks)
 - Capital (in columnar form) (6 marks)
- (Total: 12 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

- 8** Jade Wu started a trading business on 1 February 2015. All purchases and sales transactions were made on credit. On 31 January 2019, the warehouse was destroyed in a flood. With the exception of an inventory item costing \$10, all inventory was destroyed. Some accounting records were also destroyed in the flood. After investigation, Jade was able to provide the following information:

- (i) Balances as at the beginning and end of the year:

	<i>1 February 2018</i>	<i>31 January 2019</i>
	\$	\$
Furniture, net	700,000	?
Inventory	140,000	10
Trade payables	76,110	63,180
Trade receivables	51,090	23,880
Cash at bank	12,390	?
Accrued expenses	1,510	5,090

- (ii) The furniture was contributed by Jade Wu when the business started. The straight-line method was being used to calculate depreciation for the furniture. Estimated useful life of the furniture was 10 years. The business did not have any other transactions related to furniture.
- (iii) Jade took \$50,000 from the business bank account for her personal use throughout the year. She contributed cash of \$1,000 on 13 January 2019.
- (iv) Salaries and sundry expenses of \$213,050 and \$5,500 were paid by cheque during the year. All accrued expenses listed above were related to salaries.
- (v) Payment for rent and rates during the year totalled \$262,000, including a rental deposit of \$13,000.
- (vi) On 1 January 2019, a three-year time deposit of \$100,000 was made. The sum was transferred from the business bank account to the time deposit account. Annual interest rate of the deposit was 1.2%.
- (vii) With the exception of an item which cost \$1,000, all sales were made at a mark-up of 100%. The aforementioned item was sold for \$1,100.
- (viii) Payments to trade creditors throughout the year totalled \$595,100, as shown in the bank statement. Gary Cheung, a trade creditor who received a cheque of \$5,500 for payment of goods on 29 January 2019, had not presented the cheque to the bank yet.
- (ix) Throughout the year, sales receipts of \$1,000,740 were banked, after paying wages of \$12,000 and Jade's drawings of \$6.
- (x) Balance per bank statement as at 31 January 2019 was \$49,280.

Required:

- (a) Prepare an income statement for Jade Wu's business for the year ended 31 January 2019. (Wages and salaries should be listed as a combined item.) (10 marks)
 - (b) Prepare a statement of financial position as at the same date, showing the change in capital. (7 marks)
 - (c) Explain the meaning of "normal inventory loss" and "abnormal inventory loss". State for which type of inventory loss the flood should be classified. (3 marks)
- (Total: 20 marks)

- 9 Honest Ltd operates three retail stores in Hong Kong in Mong Kok, Kowloon Tong and Wong Tai Sin. Combined budgeted income statement for the coming financial year is shown as follows:

Honest Ltd			
Budgeted Income Statement for the year ended 31 December 2019			
		\$	\$
Sales			10,000,000
<i>Less</i> Cost of goods sold			<u>4,000,000</u>
Gross profit			6,000,000
<i>Less</i> <i>Selling expenses:</i>			
Fixed	540,000		
Variable	<u>360,000</u>		<u>900,000</u>
			5,100,000
<i>Less</i> <i>Administrative expenses:</i>			
Wages and salaries	1,280,000		
Office expenses	<u>2,200,000</u>		<u>3,480,000</u>
Net profit			<u>1,620,000</u>

Additional budgeted information:

- The store at Wong Tai Sin accounted for 15% of sales.
- Wong Tai Sin store's gross profit margin is 80% of the company's gross profit margin.
- Fixed selling expenses were to be distributed evenly among the three stores. Variable selling expenses were commission, calculated based on sales revenue.
- The store at Wong Tai Sin accounted for 20% of total administrative expenses.

Required:

- Prepare a budgeted income statement for the Wong Tai Sin store for the year ended 31 December 2019. (6 marks)

As the Wong Tai Sin store has been incurring losses throughout the past ten years, the board of directors is considering closing the branch on 1 January 2019. Details are as follows:

- It is estimated that after the closure of the Wong Tai Sin store, sales revenue for other branches would increase by 5%.
- Gross profit ratio for the company would increase to 65%.
- All fixed selling expenses were rental expenses. The rental contract of the Wong Tai Sin store could be terminated by forfeiting the rental deposit of \$100,000.
- Some staff at the Wong Tai Sin store would be relocated to other stores. Staff salaries would be reduced by \$20,000 per month after closing the Wong Tai Sin store.
- Seventy-five percent of the office expenses incurred by the Wong Tai Sin store would be unavoidable.

Required:

- (b) Prepare the updated budgeted income statement for the business for the year ended 31 December 2019, assuming that the Wong Tai Sin store is to be closed. (8 marks)
- (c) Should the Wong Tai Sin store be closed? Briefly explain. (2 marks)
- (d) State two non-financial factors when considering whether to close the Wong Tai Sin store or not. (4 marks)

(Total: 20 marks)

END OF PAPER 2A