

Business, Accounting and Financial Studies
Mock Exam Paper (Nov 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.

Special Arrangement for 2021 HKDSE:

- 1 Candidates are only required to answer two out of three questions in Section B, total 24 marks. The paper will carry a total of 68 marks. The weighting of Section B in the paper will remain unchanged.
- 2 Exam duration will remain 2 hours and 15 minutes.

Candidates taking the DSE exam in 2021 are advised to follow this arrangement when attempting the paper.



SECTION A (24 marks)

Answer **ALL** questions in this section.

- 1** The cash book extract of Lee & Co as at 31 October 2020 is shown as follows:

Cash at Bank							
2020			\$	2020			\$
Oct	1	Balance b/d	30,000	Oct	6	Joyce Ltd	1,337
"	7	Mandy Chau	3,128	"	15	Rates	4,200
"	12	Eric Ltd	1,590	"	17	Leung's Co	850
"	25	Lee Kee	1,908	"	26	Cheung's Ltd	6,150
"	31	Ada Co	8,041	"	31	Balance c/d	32,130
			<u>44,667</u>				<u>44,667</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>
2020		\$	\$	\$
Oct	1	Balance b/d		30,000
"	9	Cheque deposit	3,128	
"	14	Eric Ltd	1,590	
"	15	Direct debit — Water fees	1,706	
"	16	Refer to drawer	1,590	
"	17	Cheque — Rates	4,200	
"	18	Lam Kee	8,000	
"	26	Cheque deposit	1,908	
"	27	Cheque deposit	6,150	
"	29	Cheque — Joyce Ltd	1,337	
"	30	Bank charges	400	

Additional information:

- Lam Kee, a trade debtor, directly deposited the amount owed without notifying Lee & Co.
- The cheque received from Cheung's Ltd during the month was wrongly recorded as a cheque payment.

Required:

- Update the cash at bank account for Lee & Co. (5 marks)
 - Prepare the bank reconciliation statement as at 31 October 2020, commencing with the bank statement balance and ending with the updated cash book balance. (3 marks)
- (Total: 8 marks)

- 2 Cheung's Co plans to sell 5,000 units of equipment at \$100 per unit. Financial information relevant to the product's production and sales is given below:

	\$
Direct materials per unit	7
Direct labour per unit	8
Variable production overheads per unit	9
Sales commission per unit	20
Fixed production overheads	150,000
Fixed selling and administrative expenses	100,000

Required (calculations to the nearest dollar):

- Calculate the contribution margin per unit of equipment. (2 marks)
- How much sales revenue does Cheung's Co have to earn in order to make a profit of \$50,000? (2 marks)
- If the price is set at \$200 per unit, it is estimated that the sales quantity will drop from 5,000 units to 2,000 units. Should Cheung's Co raise the price? Support your answer with calculations. (3 marks)

(Total: 7 marks)

- 3 The bookkeeper at Amy Limited prepared the following trial balance as at 30 September 2020:

Amy Limited		
Trial balance as at 30 September 2020		
	<i>Dr</i>	<i>Cr</i>
	\$	\$
Motor vehicles, at cost		1,000,000
Motor vehicles, accumulated depreciation	400,000	
Inventory	69,080	
Accrued expenses		31,500
Retained earnings		368,500
Share capital	469,410	
Trade receivables	200,330	
Suspense	261,180	
	<u>1,400,000</u>	<u>1,400,000</u>

Required:

- Prepare a corrected trial balance as at 30 September 2020 for Amy Limited. (4 marks)
- State a limitation of a trial balance. (1 mark)

(Total: 5 marks)

- 4 Gary Co keeps four ledgers: (1) general ledger; (2) cash book; (3) purchases ledger and (4) sales ledger. Indicate the accounts (and the respective ledgers) to be debited and credited for the transactions below. (4 marks)

Transaction		Debit entry to be recorded		Credit entry to be recorded	
		Account	Ledger	Account	Ledger
(a)	Motor vehicles purchased by cheque.				
(b)	Goods returned to credit suppliers.				
(c)	Bank loan acquired.				
(d)	Goods sold on credit.				

SECTION B (36 marks)

Answer **ALL** questions in this section.

- 5 Leung and Chu have been partners for 20 years, sharing profits and losses in the ratio of 70% : 30%. The draft statement of financial position as at 31 August 2020 is as follows:

Leung and Chu Statement of Financial Position as at 31 August 2020			
		\$	\$
<i>Assets</i>			
Furniture and fixtures, net			600,000
Trade receivables			120,000
Inventory			88,000
Bank			9,000
			<u>817,000</u>
<i>Liabilities</i>			
Bank loan	100,000		
Trade payables	<u>23,000</u>		<u>123,000</u>
			<u>694,000</u>
<i>Financed by:</i>			
Capital accounts: Leung			600,000
Chu			94,000
			<u>694,000</u>

On 1 September 2020, Lau was admitted as a new partner. Details are as follows:

- New profit and loss sharing ratio: Leung 50% : Chu 30% : Lau 20%.
- Goodwill was valued at \$100,000. No goodwill account is to be maintained in the books of the new partnership.
- Furniture and fixtures would be revalued at \$1,000,000. Inventory would be valued at \$30,000.
- An allowance for doubtful accounts of 5% was to be created for the first time.
- Revaluation fees of \$2,500 were paid by cheque.

- (vi) The initial capital of the new partnership would be \$2,000,000. The partners shall contribute capital according to the profit and loss sharing ratio. Any surplus or deficit would be adjusted by cheque through capital injection or withdrawal of the partners.

Required:

- (a) Prepare the following accounts: (10 marks)
- (i) Revaluation account for the admission of the new partner
 - (ii) Capital accounts in columnar form showing the admission of the new partner
- (b) State two factors that would affect the value of a partnership's goodwill. (2 marks)
- (Total: 12 marks)

- 6** The following balances were extracted from the books of Mango Co as at 1 January 2019:

	\$
Office equipment	2,400,000
Office equipment, accumulated depreciation	240,000

The office equipment was purchased on 1 January 2018. Mango Co depreciates its office equipment on a monthly basis over ten years using the straight-line method.

During the year ended 31 December 2019, transactions related to office equipment were as follows:

- (i) On 1 March 2019, office equipment costing \$60,000 was sold by cheque at a profit of \$2,000.
- (ii) On 1 July 2019, some office equipment was destroyed in a flood. The accumulated depreciation as at 1 January 2019 was \$1,000. On 1 August 2019, AA Insurance Company agreed to pay compensation on the destroyed equipment and to pay the amount in 2020. The compensation amounted to 50% of the net book value of the affected office equipment as at the date of the flood.

Required:

- (a) Prepare the office equipment account as at 31 December 2019. (2 marks)
- (b) Prepare the office equipment: accumulated depreciation account as at 31 December 2019. (4 marks)
- (c) Prepare the office equipment disposal account as at 31 December 2019. (4 marks)

On 1 January 2020, some of the office equipment was modified to improve its efficiency. The useful life of the office equipment would not be changed. Total payments of \$10,000 were paid by cheque, which included upgraded parts of \$6,000 and testing fees of \$4,000.

Required:

(d) Prepare the journal entry to record the above payment. Narrations are not required.

(2 marks)

(Total: 12 marks)

- 7** Andy Co manufactures a single item called 'Andy'. The firm uses the absorption costing system. Cost information of 'Andy' for the year 2019 is given below:

	\$
Direct labour per unit	50
Direct materials per unit	90
Total manufacturing overheads per unit	40

Additional information:

- (i) Actual production and sales level for the year 2019 were 20,000 units and 19,000 units, respectively.
- (ii) Selling price per unit of 'Andy' was \$360 per unit during 2019.
- (iii) Andy Co hired a salesperson who earned a monthly salary of \$40,000 and a commission of 10% of sales.
- (iv) Fixed manufacturing overheads for 2019 were estimated to be \$600,000. Actual fixed manufacturing overheads for the year were also \$600,000.
- (v) Fixed manufacturing overheads per unit were calculated based on the budgeted production level of 20,000 units.

Required:

- (a) Prepare the income statement for Andy Co for the year ended 31 December 2019 using the marginal costing system. State the contribution and net profit separately. (5 marks)
- (b) (i) Calculate the value of inventory as at 31 December 2019 under the marginal costing system and the absorption costing system, respectively. (2 marks)
- (ii) Briefly explain the difference in the inventory values in (b)(i). (2 marks)

On 1 January 2020, Andy Co received an offer from Iris Co, a local supplier, to supply two components of 'Andy' at a price of \$10 per unit of 'Andy'. If the offer is accepted, variable manufacturing overheads would be reduced by 10% per unit, while the direct labour cost would be reduced by 15% per unit. Direct materials cost would be reduced by \$1 per unit.

Required:

(c) Should Andy Co accept the offer? Show your calculations.

(3 marks)

(Total: 12 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

- 8** On 1 January 2019, Apple and Orange formed a partnership. They each contributed \$500,000 cash. The trading firm that they formed would purchase and sell goods solely on credit.

The following information was extracted from the bank statement of the partnership as at 31 December 2019:

	\$	\$
<i>Receipts</i>		
Cash injection from partners		1,000,000
Deposits received from customers for goods not yet delivered as at 31 December 2019		5,000
Bank loan (refer to additional information (i))		60,000
Receipts from customers' settlement of accounts		<u>460,000</u>
		1,525,000
<i>Payments</i>		
Motor vehicles purchased on 1 January 2019	200,000	
Rent (refer to additional information (v))	260,000	
Salaries (refer to additional information (iv))	369,000	
Drawings	8,000	
Payments to suppliers	<u>222,500</u>	<u>1,059,500</u>
		<u>465,500</u>

Additional information:

- (i) The 12% bank loan was a one-year bank loan acquired on 1 December 2019.
- (ii) Motor vehicles were to be depreciated at a rate of 20% per annum, using the reducing-balance method. Residual value of the motor vehicles was estimated to be \$10,000.
- (iii) Inventory count conducted on 31 December 2019 showed that the cost of inventory amounted to \$88,000. Immediately after the inventory count, an inventory item costing \$1,000 was destroyed. The insurance company agreed to compensate 60% of the loss. The compensation was to be received in February 2020.

- (iv) Salaries for December 2019, amounting to \$30,000, were to be paid on 7 January 2020.
- (v) Monthly rent has increased by \$26,000 since 1 January 2020. The rent for January 2020 was paid on 30 December 2019.
- (vi) Unpresented cheques for purchases during the year and uncredited deposits for sales during the year amounted to \$1,333 and \$4,567, respectively.
- (vii) Amount receivable from customers and amount payable to suppliers as at 31 December 2019 were \$17,113 and \$26,256, respectively.

Required:

- (a) (i) Prepare for the partnership an income statement for the year ended 31 December 2019. (10 marks)
 - (ii) Prepare a statement showing the amount of working capital as at 31 December 2019. (6 marks)
 - (b) Briefly comment on the partnership's working capital as at 31 December 2019. (2 marks)
 - (c) Calculate, to two decimal places, the total assets turnover of the partnership for the year 2019. (2 marks)
- (Total: 20 marks)

- 9** Chan's Limited drafted the following statement of financial position as at 31 December 2019, the year-end date of its first year of operation:

	\$
<i>Assets</i>	
Office equipment	1,000,000
Office equipment, accumulated depreciation	(200,000)
Motor vehicles	270,000
Motor vehicles, accumulated depreciation	(9,000)
Inventory	245,000
Trade receivables (refer to additional information (ii))	620,000
Cash at bank	349,000
	<u>2,275,000</u>
<i>Capital and liabilities</i>	
Ordinary share capital	1,000,000
Retained earnings	520,000
Long-term bank loan	380,000
Short-term bank loan	270,000
Trade payables	105,000
	<u>2,275,000</u>

Additional information:

- (i) The bank reconciliation statement as at 31 December 2019 showed two unpresented cheques totalling \$1,000. Upon investigation, it was found that one of the unpresented cheques of \$100 was issued to a supplier on 4 April 2019. The bank would not honour cheques outstanding for more than six months.

- (ii) Details of trade receivables were listed as follows:

	\$
Amount due from credit customers (including the sales in additional information (iii))	800,000
Deposits received	<u>(25,000)</u>
	775,000
Allowance for doubtful accounts of 20%	<u>(155,000)</u>
	<u>620,000</u>

- (iii) On 27 December 2019, Lily Limited placed a purchase order for goods of \$14,000 (at invoice price), with a mark-up of 40%. The goods were to be delivered on 11 January 2020. This order was already treated as credit sales for the year ended 31 December 2019. Thus, the value of those items was not included in the closing inventory for 2019.
- (iv) It was discovered that one of the items in the closing inventory was damaged. The item which cost \$1,250 could only be sold for \$1,000 after spending \$100 on repairs. No adjustment has been made regarding the event above.
- (v) A six-month loan of \$240,000 was acquired to purchase the motor vehicles listed in the statement of financial position on 1 November 2019. The loan and accrued interest totalling \$270,000 were to be repaid on 1 May 2020. The total amount of \$270,000 was debited to the motor vehicles account and credited to the short-term bank loan account. Depreciation on motor vehicles for the year was already charged on a monthly basis using the straight-line method, assuming a useful life of five years.

Required:

- (a) Prepare the necessary journal entries to correct the above errors. Narrations are not required. (9 marks)
- (b) Prepare the statement of financial position for Chan's Limited as at 31 December 2019. (9 marks)
- (c) If Chan's Limited were to decide to repay its long-term bank loan on 1 April 2020, how would the quick ratio as at 31 December 2019 be affected? Briefly explain your answer. (2 marks)
- (Total: 20 marks)

END OF PAPER 2A