

Business, Accounting and Financial Studies
Mock Exam Paper (Mar 2022)

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 are compulsory. You are required to answer TWO of the THREE questions in Section B and ONE of the TWO questions in Section C.

Special Arrangement for 2022 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 2022 are advised to follow this arrangement when attempting the paper.



Pearson

SECTION A (24 marks)

Answer **ALL** questions in this section.

- 1** Jenny operates a trading business which buys and sells a single product. The business uses the weighted average cost method for inventory valuation. You are given the following information for the month ended 31 December 2021:

<i>Date</i>	<i>Transaction</i>	<i>Details of transaction</i>
Dec 3	Sales	100 units @ \$50 each
Dec 5	Purchases	200 units @ \$35 each
Dec 9	Purchases	600 units @ \$45 each
Dec 21	Sales	650 units @ \$48 each

Opening inventory as at 1 December 2021 included 150 units with a total cost of \$5,900.

Operating expenses for the month amounted to \$20,000.

Required:

- (a) Calculate the value of inventory as at 31 December 2021. (2 marks)
- (b) Prepare the income statement for the month ended 31 December 2021, showing the figures for each item under the cost of goods sold. (3 marks)
- (c) Given the net realisable value of closing inventory as at 31 December 2021 was \$7,500, explain how gross profit for the month ended 31 December 2021 would change. You should support your answer with calculations. (3 marks)

(Total: 8 marks)

- 2** Alex Co's financial year ends on 31 January. The business kept six books of original entry:
(1) Cash book; (2) Sales Journal; (3) Returns inwards journal; (4) Purchases journal;
(5) Returns outwards journal; (6) General journal.

The following transactions took place in January 2022, the last month of the current financial year:

- (i) Bought office equipment on credit for \$3,000.
- (ii) Sent a debit note for returns of \$500.
- (iii) Made cash sales of \$5,500 to Joyce Limited.
- (iv) Received a water bill of \$4,188 for the period between 1 October 2021 and 31 January 2022.
The bill is to be settled by autopay on 15 February 2022.
- (v) Sent a credit note for returns of \$100.
- (vi) Made credit sales of \$7,090 to Joyce Limited.
- (vii) Alex Leung, the owner, took goods of \$123 for personal use.
- (viii) Purchased goods amounting to \$1,500 on credit from AB Limited.
- (ix) Returned goods of \$100 to AB Limited.
- (x) Paid electricity fees of \$5,510 by autopay.

Required:

- (a) Indicate, for each of the above transactions, the book of original entry that should be used for recording entries. (5 marks)
- (b) For transaction (ix), state the relevant accounts and ledgers to be posted. (2 marks)
- (c) Explain a function of maintaining books of original entry. (1 mark)

(Total: 8 marks)

- 3** Tasty Food Co uses the absorption costing system. Terry, an inexperienced accountant at the company, provided you with the following information for the year ended 28 February 2022:

Direct materials	\$1 per gram, 250 kilograms were used
Sales	\$1,220,000
Net profit	\$120,000
Prime cost	\$668,550
Direct expenses	\$100
Selling and administrative expenses	10% of total manufacturing cost

Additional information:

- (i) A direct labour cost was incurred and manufacturing overheads absorbed, but the figures were not provided to you.
- (ii) There was no opening or closing inventory.

Required:

- (a) Prepare for Tasty Food Co an income statement for the year ended 28 February 2022. You should list each component of the prime cost separately. (6 marks)
- (b) Calculate the total amount of the conversion cost for the year. (1 mark)
- (c) List one example of selling and administrative expenses. (1 mark)

(Total: 8 marks)

SECTION B (24 marks)

Answer **TWO** of the **THREE** questions in this section.

- 4** The accountant at Judy Co found that the bank statement balance as at 31 March 2022 did not match with the debit balance of \$20,588 of the cash at bank account.

After an investigation, it was found that:

- (i) During the year, Judy Co made a time deposit of \$10,000 and recorded the transaction in the time deposit account. The bank credited the principal and \$100 in interest to the account of Judy Co on 3 April 2022. The accountant recorded the receipt on 31 March 2022.
- (ii) On 30 March 2022, cheques totalling \$21,570 were deposited and recorded in the books. However, the bank did not credit the cheques by 31 March 2022.
- (iii) An electricity payment of \$10,200 was paid by cheque during the year. This transaction was wrongly recorded as \$12,000 in the books.
- (iv) On 28 March 2022, the bank notified Judy Co that the cheque received from Lily Wong for \$8,800 was dishonoured. No entries were made in the books for the dishonoured cheque.
- (v) Dividend income of \$10 was credited by the bank on 27 March 2022, but no entries were made in the books of Judy Co.
- (vi) The bank statement stated bank charges of \$555, which was not shown in the books.
- (vii) The bank made an incorrect debit entry of \$1 on 28 March 2022, and notified Judy Co of the error in April 2022.
- (viii) Direct debit for water fees totalled \$1,357 and were not recorded in the books.
- (ix) Judy Co recorded all cheques issued during the financial year, but two cheques were not presented to the bank as at 31 March 2022. One of the cheques amounting to \$800 was issued to Wong's Co on 15 August 2021, while the other one for \$1,000 was issued to Chan's Co on 15 October 2021.

Required:

- (a) Update the cash at bank account of Judy Co. (6 marks)
- (b) Prepare a bank reconciliation statement as at 31 March 2022, starting with the cash at bank balance in (a). (4 marks)
- (c) State two possible reasons for the cheque in item (iv) being dishonored. (2 marks)

(Total: 12 marks)

- 5 Amy Lee operates a restaurant as a sole proprietor. The monthly figures of her restaurant in 2021 are shown as follows:

Average spending per customer	\$300
Average number of customers	30,000 per month
Variable production cost	25% of revenue
Rent	\$2,400,000 per month
Wages and salaries	\$1,880,000 per month
Depreciation on equipment	\$6,000,000 per year
Other expenses	\$230,000 per month

On 1 January 2022, the accountant at Amy's business provided her with the following estimations for the current financial year:

- (i) Variable production cost is expected to increase to 30% of revenue.
- (ii) Due to the COVID-19 pandemic, both rent and wages and salaries are expected to decrease by 40%, while both average spending per customer and average number of customers are expected to decline by 25%.
- (iii) Depreciation on equipment and other expenses would remain unchanged.

Required:

- (a) Calculate (to the nearest dollar) for Amy's restaurant the monthly safety figure margin (in sales dollars) for 2021. (4 marks)

Due to the ongoing pandemic, Amy is considering expanding the restaurant's take-away business. The restaurant has enough idle capacity, and it has estimated the costs and revenues for the take-away business as follows:

- (i) It is estimated that there will be 5,000 customers each month, with each customer spending \$60.
- (ii) It is expected that the sales revenue generated from dine-in customers per month will decrease by \$100,000 if the restaurant is to expand its take-away business.
- (iii) Variable production costs for dine-in and take-away orders are both 30% of revenue.
- (iv) Annual fixed operating costs (excluding depreciation) would be \$200,000. Also, idle cooking equipment with a net book value of \$1,000,000 will be used for the take-away business.
- (v) A one-time set up cost of \$10,000 is needed for the take-away business.
- (vi) A new stove is required for the take-away business. The cost of the stove is \$5,000, with an estimated scrap value of \$3,000 at the end of the year.
- (vii) It is expected that the take-away business will operate for one year.

Required:

- (b) (i) Prepare for the restaurant a statement to calculate the project's incremental revenues, costs and profits. (5 marks)
- (ii) Explain, with the aid of your calculations in (b)(i), whether the restaurant should expand its take-away business. (1 mark)
- (c) Define 'sunk cost', and give one example of a sunk cost from the information above. (2 marks)
- (Total: 12 marks)

- 6** Eric, Fanny and Gabriel have been in a partnership for 20 years. They share profits and losses in the ratio of 1 : 4 : 5. The following figures as at 31 December 2021 are as follows:

	\$		\$
Property, at net book value	2,000,000	Capital: Eric	100,000
Equipment, at net book value	550,000	Capital: Fanny	900,000
Inventory	420,000	Capital: Gabriel	1,000,000
Trade receivables	131,000	Current: Eric	(39,000)
Trade payables	80,000	Current: Fanny	453,000
Loan from Fanny	200,000	Current: Gabriel	404,000
Bank overdraft	3,000		

On 1 January 2022, the partners decided to dissolve the partnership on the following terms:

- (i) Eric was insolvent and the other two partners agreed to bear his deficiency equally.
- (ii) Realisation expenses of \$20,000 were paid.
- (iii) Trade payables were fully settled. The partnership received a 2% discount on \$30,000 of the trade payables.
- (iv) Gabriel took over all trade receivables for \$120,000. He finally collected \$129,500 from all of those accounts.
- (v) Half of the inventory was sold for \$50,000. The remaining inventory was taken over by Fanny to fully set off her loan to the partnership.
- (vi) All equipment was scrapped. The partnership paid charges of \$33,680.
- (vii) The property was sold for 8% below its net book value.

Required:

- (a) Prepare the realisation account. (7 marks)
- (b) Prepare the partners' capital accounts in columnar form, indicating the adjustments for the dissolution of partnership. (5 marks)
- (Total: 12 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

- 7** Andrew Co is a trading business that began on 1 October 2019. All sales and purchases transactions of the company were made on credit.

On 30 September 2021, most of the company's inventory was stolen. Only an item costing \$50 remained in the warehouse. Some accounting records were also stolen. The company was able to gather the following information after conducting an investigation:

- (i) The office equipment (refer to item (x)) was contributed by Andrew when the business commenced. The reducing-balance method was used to calculate depreciation for the office equipment at a rate of 20% per annum. The business did not have any other transactions related to office equipment.
- (ii) During the year ended 30 September 2021, Andrew made a cash contribution of \$50,000 to the business and withdrew \$10,000 from the business bank account for personal use.
- (iii) During the year ended 30 September 2021, wages and other operating expenses of \$240,000 and \$1,500 were paid.
- (iv) Payment for rent and rates during the year totalled \$288,000, including a deposit of \$3,000 for a short-term tenancy.
- (v) On 1 January 2021, a five-year time deposit of \$10,000 was made. The sum was transferred from the business bank account to the time deposit account on that date. The annual interest rate of the deposit was 3%. Interest would be received once every year.
- (vi) Sales during the year were made at a profit margin of 60%, with an exception for an item that costs \$100, which was sold at cost.
- (vii) Bank statements showed that payments to trade creditors throughout the year totalled \$388,880. Kwan's Co, a trade creditor who received \$1,000 by cheque 15 September 2021, had not yet presented the cheque.
- (viii) Sales receipts banked during the year totalled \$996,340, after \$312,000 in staff salaries was paid and drawings of \$100 by Andrew.
- (ix) Balance per bank statement as at the date of burglary was \$146,860.

(x) Balances as at the following dates were shown:

	<i>1 October 2020</i>	<i>30 September 2021</i>
	\$	\$
Office equipment, net	800,000	?
Inventory	260,000	50
Trade receivables	33,580	24,390
Trade payables	15,960	34,680
Cash at bank	39,000	?
Accrued other operating expenses	10	90

Required:

- (a) Prepare an income statement for Andrew Co for the year ended 30 September 2021. You should list salaries and wages as a single item. (10 marks)
- (b) Prepare a statement of financial position as at the same date, reflecting changes in capital. (7 marks)
- (c) Explain the meaning of 'normal inventory loss' and 'abnormal inventory loss'. State to which type of inventory loss the burglary belongs to. (3 marks)

(Total: 20 marks)

8 Cecilia Limited's latest financial year ended on 31 March 2022. The accountant at the company prepared a trial balance as at the date, and it failed to agree. The difference was already posted to a suspense account. Upon investigation, the following errors were found:

- (i) Deposit for a water fee account of \$500 was paid. However, no entries were made in the books.
- (ii) A credit purchase of \$1,234 was debited to the trade payables account and credited to the purchases account.
- (iii) The company loaned \$100,000 to Cecilia Lee, the director, on 1 January 2022. The interest rate was 12% per annum. This transaction was recorded as a payment to Cecilia Lee, a trade creditor with the same name.
- (iv) On 5 January 2022, the company issued 500,000 ordinary shares at \$2 each. Application monies of \$1,300,000 were received and recorded. The shares were issued on 16 March 2022, and the excess application monies were returned to share applicants. However, no entries were made for the transactions on 16 March.
- (v) Credit sales of \$1,500 were correctly recorded in the customer's account. However, the corresponding entry was debited to the returns inwards account at \$500.
- (vi) On 11 January 2022, a printer for office use was sold for \$500 cash. The cost and accumulated depreciation of the printer as at the date of disposal were \$10,000 and \$8,000, respectively. The above transaction was recorded as a cash sale.
- (vii) Prepaid wages of \$1,250 were omitted in the current financial year.
- (viii) The sales daybook was overcast by \$1,080.
- (ix) Discounts allowed of \$10 were credited to the discounts received account as \$1,000.

Required:

- (a) Prepare the necessary journal entries to correct the above errors. Narrations are not required. (13 marks)
 - (b) Prepare and balance off the suspense account. (4 marks)
 - (c) Identify the types of accounting error in items (i), (ii) and (iii) respectively. (3 marks)
- (Total: 20 marks)

END OF PAPER 2A