

## **Business, Accounting and Financial Studies Paper 2A**

### **Mock Exam Paper (Mar 2023)**

### **Accounting Module**

This paper must be answered in English.

Time allowed: 2 hours and 15 minutes

#### **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 2023 HKDSE:**

- 1 Candidates are only required to answer two out of three questions in Section B, with a total of 24 marks. The paper carries 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 2023 are advised to follow this arrangement when attempting the paper.

**SECTION A** (24 marks, weighting 30%)

Answer **ALL** questions in this section.

- 1** The cash at bank account of Tiger Limited for March 2022 is as follows:

<b>Cash at Bank</b>				
2022		\$	2022	Cheque No. \$
Mar 18	Jack Limited	8,100	Mar 1	Balance b/d 16,000
" 19	Tommy Company	29,200	" 12	Yoyo Limited 781013 37,400
" 20	Ben Company	14,500	" 23	Happy Company 781014 26,500
" 20	Eric Company	28,000	" 31	Balance c/d 40,200
" 25	Cash	40,300		
		<u>120,100</u>		<u>120,100</u>

The bank statement for March 2022 is as follows:

Date	Description	Withdrawal	Deposit	Balance
2022		\$	\$	\$
Mar 1	Balance b/d			4,600
" 8	Credit transfer: SK Limited		2,100	6,700
" 9	Cheque – 781009	13,200		(6,500)
" 14	Direct debit – Insurance	3,600		(10,100)
" 17	Cheque – 781013	37,400		(47,500)
" 22	Cheque deposits		79,800	32,300
" 31	Returned cheque	8,100		24,200
" 31	Dividend		500	24,700

Additional information:

- The reason for the difference in the opening balances of the cash at bank account and the bank statement was due to three cheques, 781001, 781007 and 781009. The cheque 781001 issued by the company to Cheese Company dated 1 October 2021, which amounted to \$4,500, has not been presented. It is the bank's practice not to honour cheques outstanding for more than six months.
- The insurance expenses on 14 March in the bank statement cover the insurance for the year ended March 2023.

*Required:*

- Update the cash at bank account of Tiger Limited. (3.5 marks)
- Prepare a bank reconciliation statement as at 31 March 2022, starting with the adjusted cash at bank account balance. (2.5 marks)
- Briefly explain, with the most relevant accounting principle or concept, whether the payment for insurance during the year should be recorded for the year ended 31 March 2022. (2 marks)

(Total: 8 marks)

- 2 Zebra Company is a sole proprietorship that sells printing machines. It keeps the following six day books: cash book, sales journal, purchases journal, returns inwards journal, returns outwards journal and general journal.

For the following transactions, indicate the books of original entry that are to be recorded, and the accounts to be debited and credited. If no entry is required, you should state so.

Transaction		Book of original entry	Account(s) to be debited	Account(s) to be credited
e.g.,	Purchased a printing machine in cash	Cash book	Purchases	Cash
(i)	Returned a printing machine to the supplier for cash	(1)	Cash	Returns outwards
(ii)	Took a printing machine for office use	General journal	(2)	(3)
(iii)	Sold a printing machine on credit	(4)	Trade receivables	(5)
(iv)	Issued a credit note for a returned printing machine	(6)	(7)	Trade receivables
(v)	Issued a cheque to settle two months' rental payment, one month for the last financial period and one month for this financial period	Cash book	(8)	(9)
(vi)	A printing machine at the warehouse was stolen	(10)	(11)	(12)
(vii)	Received a post-dated cheque from a credit customer	(13)	(14)	(15)

(Total: 8 marks)

- 3** Jade Company produces and sells ice cream in two flavours: strawberry and blueberry. Budgeted figures for the products for next month are as follows:

	<i>Strawberry</i>	<i>Blueberry</i>
Budgeted demands	4,500 units	6,000 units
Selling price per unit	\$30	\$25
Direct material cost per unit	\$3	\$5
Direct labour cost per hour	\$20	\$20
Direct labour hours per unit	0.2 hours	0.1 hours
Selling expenses per unit	\$3	\$3
Fixed manufacturing overhead costs	\$26,000	\$72,000

*Required:*

- (a) Calculate the unit contribution margins of strawberry ice cream and blueberry ice cream. (4 marks)

Owing to the lack of part-time workers, the management expected to have only 900 labour hours available next month.

*Required:*

- (b) Rank the production priority of strawberry ice cream and blueberry ice cream. (2 marks)
- (c) Calculate Jade Company's maximum profit. (2 marks)
- (Total: 8 marks)

**SECTION B** (36 marks, weighting 45%)

Answer **ALL** questions in this section.

- 4 Bruce operates a trading business as a sole proprietor. All sales and purchases are made on a credit basis. It is the firm's policy to depreciate motor vehicles using the straight-line method at the rate of 10% per annum. A full year's depreciation is to be charged in the year of purchase, and no depreciation is to be charged in the year of disposal. All of the account balances as at 1 January 2022 and 31 December 2022 are listed below:

	1 January		31 December
	\$		\$
Motor vehicles	120,000		?
Accumulated depreciation — Motor vehicles	24,000		18,000
Inventory	33,000		67,000
Trade receivables	210,000		?
Trade payables	225,000		?
Cash at bank	279,000	Dr	?
Sales	—		1,980,000
Purchases	—		?
Salaries	—		120,000
Rental expense	35,000	Dr	?
Other receivables — Disposal of motor vehicle	—		?
Loss on disposal — Motor vehicles	—		5,000
5% bank loan, repayable in 2025	100,000		100,000
Capital	328,000		?

Additional information for 2022:

- (i)
 

Gross profit ratio	45%
Trade receivables turnover	12 times
Trade payables turnover	5 times
Current ratio	1.5 : 1
- (ii) Motor vehicles costing \$170,000 were purchased for Bruce's personal use during the year. The amount was debited to the motor vehicles account. The only disposal of motor vehicles during the year was a motor vehicle that had been used for two years. The proceeds from the disposal were not yet received.
- (iii) Accrued salaries totalled \$40,000. The firm's rental expense was \$35,000 per month until 30 June 2022. From 1 July 2022, the rental expense increased to \$37,000 per month. It is the firm's practice to pay rent one month in advance.

*Required:*

- (a) Prepare an income statement for the year ended 31 December 2022. (5 marks)
- (b) Prepare a statement of financial position as at 31 December 2022. (7 marks)

(Total: 12 marks)

- 5 Apple, Bonnie and Cathy have been in partnership sharing profits and losses in the ratio of 1 : 2 : 3. The statement of financial position for the partnership as at 31 December 2022 is shown below:

<b>Apple, Bonnie and Cathy</b>			
<b>Statement of Financial Position as at 31 December 2022</b>			
		\$	\$
<b>ASSETS</b>			
<i>Non-current assets</i>			
Machinery, net			673,000
Office equipment, net			101,000
			<u>774,000</u>
<i>Current assets</i>			
Inventory	23,000		
Trade receivables, net	282,000		
Bank	363,700		668,700
Total assets			<u><u>1,442,700</u></u>
<b>CAPITAL AND LIABILITIES</b>			
<i>Capital</i>			
Capital accounts: Apple	245,500		
Bonnie	162,800		
Cathy	753,600		1,161,900
			<u>1,161,900</u>
<i>Current liabilities</i>			
Trade payables	272,000		
Accrued expenses	8,800		280,800
Total capital and liabilities			<u><u>1,442,700</u></u>

On 1 January 2023, Bonnie retired on the following terms:

- The balance of Bonnie's capital account was to be retained as a loan to the new partnership.
- Apple and Cathy were to share profits and losses in the ratio of 1 : 4. Cathy had to bring in additional funds so that her capital account balance would amount to 80% of total capital in the new partnership.
- Goodwill was to be valued at \$90,000. The new partnership would not keep a goodwill account.
- Machinery was to be revalued to \$800,000, while office equipment was to be revalued to 50% of the book value.
- The allowance for doubtful accounts was to be reduced by \$3,000.

*Required:*

- Prepare the revaluation account. (4.5 marks)
- Show the necessary journal entries to record Bonnie's retirement. Narrations are not required. (7.5 marks)

(Total: 12 marks)

- 6 Harmony Company produces a single product, Product X. It does not keep an inventory of finished goods.

Sales and cost information for the quarter ended 31 March 2022 is given below:

	\$	\$
Sales		2,310,000
Less: Direct materials	573,000	
Direct labour	357,000	
Production overheads — Fixed	180,000	
Production overheads — Variable	411,000	
Selling and distribution costs — Fixed	255,000	
Selling and distribution cost — Variable	231,000	
Administrative expenses — Fixed	160,000	2,167,000
Net profit		<u>143,000</u>

*Required:*

- (a) Prepare an income statement for the quarter ended 31 March 2022 using the marginal costing system. (5 marks)

The marketing manager proposed reducing the production of Product X and switching the production capacity to a new product, Product Y, in the quarter ended 30 June 2022. Details in relation to the product change were as follows:

- The selling volume of Product Y would be equal to that of Product X.
- The selling price of Product Y would be higher than that of Product X by 20%.
- Direct materials for Product Y were 10% more expensive than that of Product X.
- Direct labour for Product Y and production overheads were the same as that of Product X.
- Fixed selling and distribution costs would remain unchanged while variable selling and distribution costs would increase to 12% of sales for both products.
- Fixed administrative expenses would increase by \$8,000.

*Required:*

- Explain, with supporting calculations, whether the company should accept the proposal. (6 marks)
- State one disadvantage of adopting the marginal costing system. (1 mark)

(Total: 12 marks)

**SECTION C** (20 marks, weighting 25%)

Answer **ONE** question in this section.

**7** The trial balance of Fanny Limited as at 31 December 2022 is shown as follows:

	\$	\$
Purchases and sales	731,000	1,320,000
Motor vehicles	120,000	
Accumulated depreciation: Motor vehicles		56,000
Machinery	320,000	
Accumulated depreciation: Machinery		200,000
Debenture interest	12,000	
Trade receivables and trade payables	150,000	31,000
Bank	247,000	
Inventory, 1 January 2022	186,000	
Ordinary share application monies		100,000
6% debentures (maturity date: 30 June 2024)		400,000
2022 interim dividend	21,000	
Rent and rates	319,000	
Salaries	225,000	
Utilities	69,000	
General reserves		60,000
Retained profits, 1 January 2022		83,000
Ordinary share capital		150,000
	2,400,000	2,400,000

Additional information:

- (i) Inventory as at 31 December 2022 amounted to \$295,000. It was found that inventory items costing \$24,000 were outdated and could only be sold for \$17,000 after repackaging them at a cost of \$1,000.
- (ii) Goods costing \$2,000 were sent as free samples to customers. No entry had been made for this.
- (iii) The ageing schedule of trade receivables as at 31 December 2022 is shown below:

Period outstanding	Amount of trade receivables \$	Estimated percentage of doubtful accounts \$
Less than two months	120,000	1%
2 months – 6 months	20,000	3%
6 months – 1 year	10,000	10%

- (iv) Depreciation on motor vehicles and machinery was to be charged as follows:
  - Motor vehicles: 25% per annum using the reducing-balance method.
  - Machinery: 10% per annum using the straight-line method.

A motor vehicle costing \$100,000 was bought during the year and recorded as purchases. A full year's depreciation was charged in the year of purchase.

- (v) Debenture interest is payable on 30 June and 31 December each year. No entries had been made for the payment made on 31 December 2022.
- (vi) Accrued utilities of 7,000 had not been recorded.
- (vii) On 20 November 2022, application monies of 50,000 shares for the issue of 40,000 shares at \$2 each were received. The shares were allotted on 31 December 2022, but no entries were made. The excess application monies were refunded on 9 January 2023.
- (viii) On 31 December 2022, the board of directors resolved to transfer \$20,000 to the general reserve.

*Required:*

Prepare the following for Fanny Limited:

- (a) (i) An income statement for the year ended 31 December 2022 (9 marks)
- (ii) A statement to calculate the retained profits as at 31 December 2022 (2 marks)
- (iii) A statement of financial position as at 31 December 2022 (8 marks)
- (b) Comment on the solvency of Fanny Limited. (1 mark)

(Total: 20 marks)

- 8** The trial balance of Edison Company as at the financial year-end, 31 March 2022, did not agree and the difference was recorded in the suspense account. The following errors were discovered:
- (i) The sales day book had been undercast by \$790.
  - (ii) In March 2022, goods invoiced at \$7,200 were sent to a customer on a sale-or-return basis. These goods had been marked up by 200% and recorded as credit sales. On 31 March 2022, the customer confirmed acceptance of 80% of these goods and returned the rest in the next financial year. No adjustments had been made for this event.
  - (iii) Carriage inwards of \$600 were credited to carriage outwards as \$660.
  - (iv) Credit sales of \$3,700 had been correctly recorded in the sales account, but the corresponding entry had been debited to trade payables account as \$7,300.
  - (v) Edison brought in capital of \$20,000 by cheque on 15 March 2022. No entries had been made for this event.
  - (vi) A return of \$1,200 to a credit supplier had been correctly recorded in the trade payables account, but no other entries had been made.
  - (vii) The company borrowed a 2% bank loan of \$40,000 on 1 January 2022. No entries had been made.
  - (viii) Sales proceeds of \$6,500 for a motor van had been recorded as a credit sale. The cost and accumulated depreciation of the motor van were \$17,000 and \$11,300, respectively.

*Required:*

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (13 marks)
- (b) Prepare the suspense account to determine the difference per trial balance. (3 marks)
- (c) The draft net profit for the year was \$28,900. Prepare a statement to correct the draft net profit. (4 marks)

(Total: 20 marks)

**END OF PAPER 2A**