

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2012

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1**

8.30am – 10.00am (1 hour 30 minutes)

This paper must be answered in English

**GENERAL INSTRUCTIONS**

- (1) There are TWO sections, A and B, in this Paper.
- (2) Section A consists of multiple-choice questions in this question paper. Section B contains short questions printed separately in Question-Answer Book B.
- (3) Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the spaces provided in Question-Answer Book B. **The Answer Sheet for Section A and the Question-Answer Book for Section B must be handed in separately at the end of the examination.**

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**INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)**

- (1) Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the 'Time is up' announcement.
- (2) When told to open this book, you should check that all the questions are there. Look for the words '**END OF SECTION A**' after the last question.
- (3) All questions carry equal marks.
- (4) **ANSWER ALL QUESTIONS.** You are advised to use an HB pencil to mark all the answers on the Answer Sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
- (5) You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question.
- (6) No marks will be deducted for wrong answers.

Not to be taken away before the end of the examination session
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**SECTION A (60 marks)**

1. A convenience store chain is looking for a shop supervisor for one of its stores. Which of the following will not be a task for the new supervisor?
  - A. monitor the daily operations of the shop
  - B. coach shop assistants
  - C. handle disputes between staff and customers
  - D. decide on the development strategies for the chain
  
2. In an income statement, \_\_\_\_\_ should be deducted from sales, while \_\_\_\_\_ should be added to the cost of goods sold.
  - A. returns inwards; closing inventory
  - B. returns inwards; carriage inwards
  - C. returns outwards; opening inventory
  - D. returns outwards; carriage outwards
  
3. Which of the following accounts must be in debit balances on a trial balance?
  - (1) short term loans
  - (2) inventories
  - (3) bank
  - (4) premises
  - A. (1) and (3) only
  - B. (1) and (4) only
  - C. (2) and (4) only
  - D. (2), (3) and (4) only
  
4. The ownership of Small and Medium Enterprises (SMEs) can take different forms. SMEs
  - (1) cover market segments which are not served by large companies.
  - (2) provide more employment opportunities to local workers than large companies.
  - (3) enjoy a lower tax rate than large companies.
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
5. Which of the following types of employee is exempted from joining the Mandatory Provident Fund Scheme?
  - A. construction workers
  - B. security guards
  - C. catering workers
  - D. domestic employees
  
6. Which of the following is not within the process of controlling in a sales department of a business?
  - A. set sales targets
  - B. assign salespersons to different sales teams
  - C. record sales of each salesperson
  - D. adjust sales targets

Based on the following information, answer Questions 7 to 8:

Smart International is a company which specialises in analysing the opportunities in overseas markets and publishes related reports monthly. Businesses in Hong Kong can buy these reports, each with more than two hundred pages, at \$500 per copy. After one year, each copy is uploaded to the Internet to allow for free public access. Ronnie, the owner of a small toy manufacturer in Hong Kong, wants to explore the market potential overseas and buys these reports.

7. Why is Ronnie willing to buy these reports?
- (1) Timely information enables Ronnie to make appropriate business decisions.
  - (2) The cost of buying these reports is lower than searching for information by Ronnie.
  - (3) Each of these reports has more than two hundred pages.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
8. Ronnie wants to participate in a trade fair overseas to promote her business. Which of the following can provide a subsidy for her participation?
- A. SME Export Marketing Fund
  - B. SME Loan Guarantee Scheme
  - C. SME Development Fund
  - D. Small Entrepreneur Research Assistance Programme
9. On the first day of 2012, Johnny deposited \$6000 into a fixed-interest bank account. Suppose the interest rate on the deposit is 4% per annum compounded annually, find out (to the nearest dollar) the total amount Johnny could withdraw at the end of 2014.
- A. \$6480
  - B. \$6720
  - C. \$6749
  - D. \$7019
10. Which of the following are the impacts of globalisation on the business sector?
- (1) increased international trade
  - (2) reduced production cost of goods
  - (3) intensified global competition
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
11. Which of the following is not a purpose of the Closer Economic Partnership Arrangement (CEPA)?
- A. reduce barriers on the trade of goods between Hong Kong and the Mainland
  - B. promote free trade in services between Hong Kong and the Mainland
  - C. ensure free flow of information between Hong Kong and the Mainland
  - D. facilitate cross-border business investment between Hong Kong and the Mainland
12. Which of the following statements is correct?
- A. All partners in a limited partnership enjoy limited liability.
  - B. All shareholders of a limited company have voting rights in the board of directors' meeting.
  - C. A limited company needs to disclose its financial statements to the public.
  - D. A public corporation is owned by the government.

13. Which of the following is not a benefit of good corporate governance?
- A. reduce conflicts between stakeholders
  - B. improve image and reputation of firms
  - C. enhance investor confidence
  - D. ensure fair competition with other firms
14. Arrange the following tasks in the accounting cycle in sequence.
- (1) prepare a trial balance
  - (2) prepare financial statements
  - (3) record transactions in day books
  - (4) post entries to the ledger accounts
- A. (3) → (4) → (2) → (1)
  - B. (3) → (4) → (1) → (2)
  - C. (4) → (3) → (2) → (1)
  - D. (4) → (3) → (1) → (2)
15. A human resources manager is responsible for
- (1) designing a performance appraisal system.
  - (2) developing the skills and talents of staff.
  - (3) arranging workflow.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
16. Which of the following transactions will affect the total amount of liability of a business?
- A. assets introduced by the owner into the business
  - B. goods sold to customers on credit
  - C. machinery bought with its price settled two months later
  - D. sales proceeds deposited into the business's bank account
17. On 1 January 2012, Mr Tong set up a firm and brought in motor vehicles of \$2000, premises of \$14 000 and inventory of \$5000 to the business. The firm borrowed \$3000 from the bank to acquire a piece of equipment. Meanwhile, Mr Tong put \$1000 into the firm's cash box and \$8000 into the firm's bank account.
- What was the amount of Mr Tong's capital on 1 January 2012?
- A. \$9 000
  - B. \$27 000
  - C. \$30 000
  - D. \$33 000
18. If a limited company wants to go public through the issuing of new shares, which of the following markets should it go to?
- A. primary market
  - B. listed exchange
  - C. secondary market
  - D. over-the-counter market

19. Which of the following are benefits of applying Management by Objectives in a business?
- (1) improved communication between management and staff
  - (2) better staff morale
  - (3) enhanced monitoring of staff performance
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
20. Which of the following are functions of accounting?
- (1) evaluate business performance
  - (2) facilitate business planning
  - (3) enhance business competitiveness
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
21. Which of the following client information is the least relevant factor for a bank to reject a client's application for a credit card?
- A. record of repayment
  - B. degree of loyalty to the bank
  - C. level of outstanding debts
  - D. record of bankruptcy
22. On 31 December 2011, the amount of total current liabilities of a company is \$120 000 and its current ratio is 3:1. What was the amount of working capital of the company on the same date?
- A. \$40 000
  - B. \$80 000
  - C. \$240 000
  - D. \$360 000
23. Which of the following are differences between a small firm and a large enterprise?
- |                          | <u>Small firm</u> | <u>Large enterprise</u> |
|--------------------------|-------------------|-------------------------|
| (1) Decision making      | flexible          | inflexible              |
| (2) Scope of business    | diversified       | specialised             |
| (3) Managerial hierarchy | fewer levels      | more levels             |
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
24. Which of the following is the main function of the Hong Kong Monetary Authority?
- A. regulate securities and futures markets
  - B. operate securities and derivatives marketplace
  - C. maintain monetary and banking stability
  - D. determine the bank deposit interest rate

25. Which of the following are uses of a company's financial statements to the respective users?

	<u>Users</u>	<u>Uses</u>
(1)	Managers	help to reallocate the resources of the firm
(2)	Debtors	help to assess the repayment ability of the firm
(3)	Potential investors	help to decide whether the firm is worth investing in
A.	(1) and (2) only	
B.	(1) and (3) only	
C.	(2) and (3) only	
D.	(1), (2) and (3)	

26. The effective rate of return on a time deposit is raised if

- A. the frequency of compounding is higher.
- B. the principal is larger.
- C. the period of deposit is shorter.
- D. the cost of capital is lower.

27. Which of the following accounting principles and conventions has been violated if the owner of a restaurant charges the unpaid bills for meals with his family sometimes to the company's expense accounts but sometimes to his personal expense accounts?

- A. Accrual
- B. Business entity
- C. Consistency
- D. Going concern

28. Which of the following statements is not correct?

- A. The amount of total purchases should be posted to the purchases ledger.
- B. The petty cash book is one of the books of original entry.
- C. Only credit sales are recorded in the sales journal.
- D. Purchase of non-current assets on credit should be recorded in the general journal.

29. Which of the following are the characteristics of a successful entrepreneur?

- (1) willing to accept challenges
- (2) follow routine practices closely
- (3) strong desire to achieve
- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

30. In a typical communication process, an idea is \_\_\_\_\_ by the sender to become a message. Through suitable \_\_\_\_\_, the message is transmitted and then \_\_\_\_\_ by the receiver.

- A. decoded.....feedbacks.....encoded
- B. encoded.....feedbacks.....decoded
- C. decoded.....channels.....encoded
- D. encoded.....channels.....decoded

**End of Section A**

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**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**

**PAPER 1**

**SECTION B : Question-Answer Book B**

8.30 am – 10.00 am (1 hour 30 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) After the announcement of the start of the examination, you should first write your Candidate Number in the space provided on Page 1.
- (2) Stick barcode labels in the spaces provided on Pages 1 and 3.
- (3) Refer to the general instructions on the cover of the Question Paper for Section A.
- (4) Answer **ALL** questions.
- (5) Write your answers to Section B in the spaces provided in this Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.
- (6) Supplementary answer sheets will be supplied on request. Write your candidate number, mark the question number box and stick a barcode label on each sheet, and fasten them with string **INSIDE** this book.
- (7) No extra time will be given to candidates for sticking on the barcode labels or filling in the question number boxes after the 'Time is up' announcement.

Please stick the barcode label here.

Candidate Number



**SECTION B (40 marks)**

1. Explain three limitations on the use of financial statements. (6 marks)

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2. Mr Ho is a toy manufacturer. Recently, he has received a number of complaints from his customers about paint peeling off from his toys. A management consultant tells Mr Ho that having good operations management can reduce the number of defective items.

In what ways could operations management help Mr Ho to reduce the number of defective items? Give two ways. (4 marks)

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3. Mr Au is an inexperienced investor and the majority of his investments are in the shares of a single company. His son suggests that he should switch part of his investments to a mutual fund or other less risky financial instruments with stable returns.

(a) Briefly explain one purpose that Mr Au could achieve through investing in a mutual fund. (2 marks)

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Please stick the barcode label here.

(b) List two less risky financial instruments with stable returns for Mr Au.

(2 marks)

4. After discussion, the board of directors of a company resolves to freeze the salaries of its staff for one year starting from 1 July 2012. Mr Kan, the Human Resources Manager, was assigned to deliver the message to the staff of the company. He drafted the following email:

From: Kan  
To: All Staff  
Subject: Salary

Dear all,

As you all know, the global economy is deteriorating and many people around the world have lost their jobs. You, especially those with poor qualifications and poor working attitudes, should be glad that you haven't been fired by the company. As the company is already being kind in not laying you off, please don't talk about the salary issue in the future as this has been discussed and finalised.

Kan

List two principles of effective communication and give an example of each from the above email to explain why the message is not effectively communicated in this case. (4 marks)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

5. The following account information relates to Yip's business for the year ended 31 December 2011:

	\$
Office equipment	220 000
Trade receivables	67 000
Opening inventory	34 000
Closing inventory	42 000
Bank overdraft	17 600
Trade payables	26 300
Loan from Sam's Company (repayable in 2020)	38 000
Opening capital	231 000
Sales	109 000
Purchases	76 100
Rent and rates	12 000
Salaries	9 000
Other operating expenses	7 900
Discounts received	4 100

- (a) Prepare the statement of financial position for Yip's business as at 31 December 2011. (5 marks)

Answers written in the margins will not be marked.

- (b) Calculate (to two decimal places) the gross profit ratio of Yip's business for 2011. (2 marks)

6. Peter was a sole proprietor running a small business without any employees. He bought a piece of equipment with a list price of \$56 000 for \$48 000 in February 2012. Peter then went bankrupt on 31 March 2012 and he decided to close the business. The market value of the equipment on the same date was \$38 000.

- (a) What is the valuation of the equipment as at 31 March 2012? Explain your answer with an appropriate accounting concept. (3 marks)

- (b) Give two types of stakeholders in Peter's business and explain the adverse effect of the closure on each of them. (4 marks)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

7. Mary is an experienced designer who has a wide customer network. She is considering setting up a small interior design firm on her own. At the same time, another designer, Paul, invites her to form a partnership.

(a) Give two reasons why Mary should accept Paul's invitation instead of setting up a firm on her own. (4 marks)

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(b) Mary finally sets up the interior design firm on her own. List two criteria for setting good business goals for her. Explain each with an example. (4 marks)

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**END OF PAPER**

Answers written in the margins will not be marked.

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**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A**  
**Accounting Module**

10.45am – 1.15pm (2 hours 30 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.
- (3) Write your answers in the answer book. **Start each question** (not part of a question) **on a new page**.
- (4) Supplementary answer sheets will be supplied on request. Write your candidate number, mark the question number box and stick a barcode label on each sheet, and fasten them with string **INSIDE** the answer book.

Not to be taken away before the  
end of the examination session

## SECTION A

Answer **ALL** questions in this section.

1. The following information for the year ended 31 December 2011 was extracted from the books of Kong's Company:

	\$
Sales ledger control account – 1 January 2011	33 500
Allowance for doubtful debts – 1 January 2011	2 500
– 31 December 2011	27 600
Cash sales	64 530
Credit sales	742 070
Credit sales returns	3 200
Cheques received from trade debtors	602 120
Discounts allowed	3 500
Bad debts written off	650
Cheques from trade debtors dishonoured	12 420
Set-off against purchases ledger control account	1 000

### REQUIRED:

- (a) Prepare a sales ledger control account for the year ended 31 December 2011. (5 marks)
- (b) Give one reason why a company would like to prepare control accounts. (2 marks)
- (Total: 7 marks)
2. The non-current assets of Moody Company as at 31 December 2010 were as follows:

	Cost	Accumulated depreciation
	\$	\$
Machinery (all purchased in 2007)	3 600 000	3 455 000
Lorries (all purchased in 2008)	1 850 000	1 200 000

The following were transactions relating to the non-current assets of the company during 2011:

- (i) On 1 March 2011, a piece of machinery was bought at a price of \$2 400 000. On the same date, a component costing \$60 000 was installed into the machinery to increase its productivity over the coming four years.
- (ii) On 1 January 2011, a lorry was bought at a price of \$1 900 000. The price included an insurance premium of \$36 000 covering the year ended 31 December 2011.

It is the company's policy to depreciate machinery at a rate of 25% per annum on cost, and lorries at a rate of 20% per annum using the reducing balance method.

### REQUIRED:

- (a) For Moody Company,
- (1) calculate the depreciation expenses of the machinery for the year ended 31 December 2011; and (3 marks)
- (2) prepare the accumulated depreciation account of lorries for the year ended 31 December 2011. (3 marks)
- (b) Different methods are used to depreciate the non-current assets of Moody Company. Explain whether such a difference in accounting treatments violates the consistency principle. (2 marks)
- (Total: 8 marks)

3. The profits of one of the Art Group's stores have been declining. The Group's Board of Directors then resolved that any net loss of the store in 2011 would result in layoffs of its senior management in 2012.

In a meeting, Terry Ma, a board member, said, "The allowance for doubtful debts of the store was 5% over the past 6 years but was only 1% in 2011. As the business environment in 2011 was similar to that in the previous years, I think the reduction in the allowance was not justified."

Susan, the store manager, argued, "This reduction was fair as it was the result of our customers' improved credit records." However, she presented little evidence to support her argument.

As Terry had a number of relatives working as the senior management of the store and he didn't want to have a personal confrontation with Susan, he decided to agree with her in the end.

**REQUIRED:**

- (a) What is corporate governance? (2 marks)
- (b) With reference to the above situation, suggest two ways to improve Art Group's corporate governance. (4 marks)
- (Total: 6 marks)

4. Magic Company manufactures and sells a single product, Product X. For the purpose of preparing the budget for Product X for the month of November 2012, the following information is provided:

- (i) The budgeted production and budgeted sales for the month are 5000 and 4400 units respectively.
- (ii) The expected selling price is \$300 per unit.
- (iii) The direct material cost of the product is \$40 per unit. An additional transportation cost of \$2 per unit is to be incurred for the purchase of the direct materials.
- (iv) Each unit of product requires 2 hours of direct labour. The hourly rate of direct labour is \$60.5.
- (v) The production overheads of the product comprise a fixed and a variable element. It is the company's policy to apportion variable production overheads in relation to the number of units produced.

Assuming the monthly fixed production overheads of the company remain the same in 2012, the annual budgeted production overheads will be \$1 159 000 if 58 000 units are produced each year, and \$1 203 000 if 66 000 units are produced each year.

- (vi) Selling and distribution expenses consist of a sales commission of \$8 per unit sold and a fixed monthly distribution expense of \$50 000.

**REQUIRED:**

Magic Company adopts the marginal costing system. Assume it does not keep any inventories as at 31 October 2012, calculate the following for Product X for the month ended 30 November 2012:

- (a) the budgeted total value of closing inventories (4 marks)
- (b) the budgeted total amount of contribution (3 marks)
- (c) the budgeted total amount of net profit (2 marks)
- (Total: 9 marks)

## SECTION B

Answer ALL questions in this section.

5. The following information was extracted from the cash book of Doris Ltd for the month ended 31 December 2011:

Cash at bank					
2011		\$	2011	Cheque No.	\$
Dec 4	Cindy Ltd	125 000	Dec 1	Balance b/d	10 500
5	Connie Fashion Co	25 300	12	Electricity	532018 2 820
20	Chloe Ltd	72 530	13	Yuki Co	532019 24 500
28	Carmen Co	7 235	22	Zoey & Co	532020 31 600
31	Cherry Ltd	8 005	22	Salaries	532021 109 420
31	Balance c/d	9 530	31	Clara Co	532022 68 760
		<u>247 600</u>			<u>247 600</u>

Doris Ltd received the following bank statement for the month of December 2011:

Bank statement as at 31 December 2011				
Date	Description	Withdrawal	Deposit	Balance
2011		\$	\$	\$
Dec 1	Balance b/d			(10 000)
4	Cheque deposit		125 000	115 000
5	Cheque deposit		23 500	138 500
8	Cheque 532010	300		138 200
12	Cheque 532018	2 820		135 380
13	Cheque 532019	24 500		110 880
20	Cheque deposit		72 530	183 410
22	Cheque 532021	109 420		73 990
23	Refer to drawer	72 530		1 460
30	Credit transfer		46 250	47 710
31	Direct debit – management fees	5 025		42 685
31	Bank charges	25		42 660
31	Cheque 982277	105 660		(63 000)

Additional information:

- A cheque for \$23 500 received from Connie Fashion Co was wrongly recorded in the cash book as \$25 300. Also, it was discovered that the cheque received from Carmen Co on 28 December 2011 was dated 2 January 2012.
- The credit transfer on 30 December 2011 shown on the bank statement was made by a customer of Doris Ltd.
- Doris Ltd had been informed by its bank that Cheque 982277 was an incorrect debit entry and the correction would be made by the bank on 5 January 2012.
- The reason for the difference in the opening balances of the cash at bank account and the bank statement was due to two cheques, 532009 and 532010, issued in November 2011 remained unpresented on 30 November 2011.

### REQUIRED:

- Update the cash at bank account of Doris Ltd. (7 marks)
  - Prepare a bank reconciliation statement as at 31 December 2011, commencing with the updated cash at bank balance. (5 marks)
  - List two possible reasons why the cheque deposit made on 20 December 2011 was returned by the bank on 23 December 2011. (2 marks)
- (Total: 14 marks)



6. Albert Manufacturing Company specialises in the production of mobile phones. It has two products, MP1 and MP2. MP1 only passes through production department A while MP2 only passes through production department B. There are two service centres, Maintenance and Product Design, in its factory providing support to both production departments. The following budgeted information for the year ended 31 December 2013 is available:

- (i) Total budgeted fixed production overheads for the two production departments and the two service centres for 2013 are \$5 548 000:

<u>Departmental production overheads:</u>	\$	\$
Department A		96 000
Department B		32 000
Maintenance		14 000
Product Design		6 000
		<u>148 000</u>
<u>Other production overheads:</u>		
Air-conditioning and lighting	1 056 000	
Insurance for machinery	280 000	
Rent and rates	3 080 000	
Salaries of supervisors	480 000	
Machinery depreciation	504 000	
		<u>5 400 000</u>
		<u>5 548 000</u>

- (ii) Data relating to the operation of each production department and service centre for 2013:

	Department A	Department B	Maintenance	Product Design
Floor area occupied (square metres)	2800	4400	1000	600
Cost of machines	\$1 200 000	\$500 000	\$300 000	\$800 000
Number of supervisors	15	10	2	3
Maintenance cost apportionment	20%	80%	—	—
Product design cost apportionment	70%	30%	—	—

- (iii) Production and sales information relating to MP1 and MP2 for 2013:

	MP1	MP2
Annual production and sales level	80 000 units	40 000 units
Direct material cost per unit	\$210	\$250
Direct labour cost per hour	\$28	\$40
Direct labour hours per unit	2.5 hours	—
— Department A	—	3 hours
— Department B	—	—
Machine hours per unit	1 hour	—
— Department A	—	15 hours
— Department B	—	—

The company adopts absorption costing and establishes a predetermined fixed production overheads absorption rate for each production department. Direct labour hour and machine hour are used as the bases for the allocation of fixed production overheads for Department A and Department B respectively.

#### REQUIRED:

- What are the meanings of direct costs and indirect costs? Explain with an example for each cost from the information provided above. (4 marks)
- Prepare a statement, in columnar form, to calculate (to the nearest dollar) the total budgeted fixed production overheads for each of the two production departments in 2013. (7 marks)
  - Calculate (to two decimal places) the predetermined fixed production overhead absorption rate for each production department. (2 marks)
- Prepare a statement to calculate (to two decimal places) the respective budgeted unit production costs of MP1 and MP2. (3 marks)
- If it is the company's practice to price every product at a mark-up of 25%, calculate (to the nearest dollar) the unit selling price of MP1. (2 marks)

(Total: 18 marks)

7. Andy, Bob and Carol were in partnership sharing profits and losses in the ratio of 2:3:5. The summarised balance sheet as at 31 December 2011 was as follows:

Andy, Bob and Carol Balance Sheet as at 31 December 2011		
	\$	\$
<b>Assets</b>		
Plant and machinery, net		129 000
Office equipment, net		134 500
Inventories		92 000
Trade receivables		40 500
Cash at bank		<u>2 200</u>
		398 200
<b>Liabilities</b>		
Loan from Andy	60 000	
Loan from Bob	50 000	
Trade payables	50 200	
Accrued expenses	<u>11 500</u>	<u>171 700</u>
		<u>226 500</u>
<b>Financed by</b>		
Capital accounts:		
– Andy	178 000	
– Bob	22 000	
– Carol	<u>12 000</u>	212 000
Current accounts:		
– Andy	14 300	
– Bob	6 500	
– Carol	<u>(6 300)</u>	<u>14 500</u>
		<u>226 500</u>

As profits of the partnership had been declining, the partners decided to dissolve the partnership on 1 January 2012.

On the date of dissolution,

- (i) Andy took over all the office equipment as full settlement of his loan to the partnership.
- (ii) Carol took over half of the inventories at \$11 500.
- (iii) Bob had collected from customers a total of \$36 100 after deducting bad debts of \$4400. He agreed that the amount collected would be used as part of the settlement of his loan to the partnership.

In the course of dissolution, all the remaining assets were sold for \$285 700 and all the liabilities were settled by cheque. Cash discounts amounting to \$720 were allowed by suppliers and realisation expenses of \$4920 were paid.

For the purpose of dissolution, all the balances of the partners' current accounts were to be transferred to their respective capital accounts before any adjustment was to be made.

#### REQUIRED:

- (a) Prepare the following accounts of the partnership to record the above:
    - (1) realisation account (7 marks)
    - (2) cash at bank account (5 marks)
    - (3) the partners' capital accounts in columnar form (4 marks)
  - (b) Explain one advantage of maintaining both current accounts and capital accounts in a partnership. (2 marks)
- (Total: 18 marks)

## SECTION C

Answer ONE question in this section.

8. Lucky Company is a local manufacturer selling a single product, DC. The company plans to produce and sell at its maximum capacity of 80 000 units in 2013. The following estimates relating to DC have been made for 2013:

	\$
<u>Manufacturing costs:</u>	
Direct materials	480 000
Direct labour	320 000
Production overheads	1 000 000
<u>Non-manufacturing costs:</u>	
Selling expenses	900 000
Administrative expenses	528 500

Additional information:

- (i) 20% of the production overheads are variable costs.
- (ii) Two-thirds of the selling expenses are fixed while the remaining balance is the sales commission, which varies with the number of units sold.
- (iii) Administrative expenses are all fixed.

### REQUIRED:

- (a) Calculate
  - (1) the total fixed costs of 80 000 units of DC; and (2 marks)
  - (2) the total variable costs of 80 000 units of DC. (2 marks)

At a regular meeting of the company, the sales manager reports that one of its competitors is going to launch a product similar to DC. As a result, he expects that the sales volume of DC will drop to 48 000 units in 2013 if its selling price is maintained at \$49.5 per unit. The management prefers not to have any price deduction in the local market, and is considering adopting one of following alternatives in 2013 to solve the problem:

#### Alternative A

The company pays an additional sales commission of 10% on the selling price, and increases advertising expenses by \$52 500 per annum. By doing so, the expected sales volume of DC is 76 000 units.

#### Alternative B

The company produces and sells 48 000 units in the local market, and uses its excess capacity to accept an offer from a mail-order house to sell at most 40 000 units of DC to overseas markets at a unit selling price of \$37.5. Under the agreement, no sales commission is to be paid to the mail-order house but a total of \$25 000 per month is to be paid by Lucky Company to cover the cost of producing the mail-order catalogue.

### REQUIRED:

- (b) Calculate the respective breakeven point (in units) of DC under Alternative A and Alternative B. (5 marks)
- (c) Suppose Lucky Company has to choose one of the alternatives. Explain which alternative you would recommend to the management based on the respective total profits calculated under each alternative. (6 marks)
- (d) Other than total profit, explain one financial factor that Lucky Company should consider if it decides to adopt Alternative B. (2 marks)

Suppose the Company adopts Alternative A and considers reducing the cost of production through production process automation. If a piece of equipment with a rental cost of \$125 000 per annum is hired, the direct labour cost is expected to be reduced by 40%.

- (e) Should Lucky Company hire the equipment? Support your answer with calculations. (3 marks)
- (Total: 20 marks)

9. After closing all the nominal accounts and preparing the draft income statement, the ledger balances of Dragon Ltd as at 31 December 2011 are as follows:

	Dr. \$	Cr. \$
\$2 Ordinary shares, fully paid		4 000 000
Share premium		319 000
Retained profits as at 31 December 2011		996 500
Inventory as at 31 December 2011	545 000	
Property, plant and equipment		
– Cost	4 800 000	
– Accumulated depreciation as at 31 December 2011		1 240 000
Trade receivables and trade payables	716 400	691 500
Prepayment [ note (vi) ]	424 800	
Cash at bank	760 800	
	<u>7 247 000</u>	<u>7 247 000</u>

During the internal audit process, the following items were discovered:

- (i) The management of the company decided to provide allowance for doubtful debts starting from 2011. An allowance of 5% on outstanding trade receivables should be provided for the year ended 31 December 2011, but no entries had been made in the books.
- (ii) To finance the expansion of the business, the authorised share capital of \$5 000 000 was increased to \$15 000 000 on 15 December 2011. On the same date, 600 000 ordinary shares of \$2 each had been issued at \$6 each. All the monies subscribed had been received and shares had been allotted on 28 December 2011. However, no entries had been made in the books.
- (iii) On 1 December 2011, a five-year 2% debenture of \$900 000 in total had been issued at par. Debenture interest is payable on 31 March and 30 September each year. All the monies subscribed were duly collected. In order to obtain the cash discount of 4% from a supplier, one-quarter of the monies collected was used to pay the supplier during the discount period as the full settlement of its account. However, entries regarding all the above transactions were omitted from the books.
- (iv) A piece of equipment with both cost and accumulated depreciation of \$726 000 on 1 January 2011 was sold for \$156 000 on the same date. The transaction was recorded in the books as cash sales of \$165 000.
- (v) On 31 December 2011, the board of directors of the company resolved to transfer \$135 000 to the general reserve. However, no entries had been made in the books.
- (vi) During the year 2011, advertising expenditure amounting to \$424 800 had been incurred and paid. The company estimated that the sales volume could be increased by 5% and 15% in 2012 and 2013 respectively as a result of the advertising. The book-keeper had therefore recorded the payment for advertising as a prepayment in 2011, to be written off as expenses in 2012 and 2013.

#### REQUIRED:

- (a) Prepare for Dragon Ltd
    - (1) the journal entries necessary for correcting the errors and the omission in (i) to (vi) above (narrations are not required); and (10 marks)
    - (2) the statement of financial position as at 31 December 2011 after taking into the account the above adjustments. (7 marks)
  - (b) Comment on the accounting treatment of advertising expenditure in item (vi). (3 marks)
- (Total: 20 marks)

END OF PAPER

## Marking Guidelines

### PAPER 1 Compulsory Part

#### SECTION A

Question No.	Key	Question No.	Key
1.	D (88%)	16.	C (78%)
2.	B (83%)	17.	C (42%)
3.	C (52%)	18.	A (62%)
4.	A (21%)	19.	D (59%)
5.	D (74%)	20.	A (81%)
6.	B (45%)	21.	B (84%)
7.	A (88%)	22.	C (47%)
8.	A (55%)	23.	B (69%)
9.	C (71%)	24.	C (72%)
10.	D (78%)	25.	B (52%)
11.	C (66%)	26.	A (73%)
12.	D (62%)	27.	B (77%)
13.	D (75%)	28.	A (33%)
14.	B (83%)	29.	B (72%)
15.	A (42%)	30.	D (85%)

*Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.*

#### SECTION B

##### *General Principles of Marking*

- The answers given in this marking scheme are 'suggestions' only. Other relevant answers will also be accepted.
- Where the number of points required is specified in a question, markers will mark the first listed points up to the number required, and cross out other points as 'excess'.
- The general guidelines for points which are awarded 0 to 2 marks each are as follows:

0 mark	:	irrelevant or ambiguous answers
1 mark	:	mention of key concept or words
2 marks	:	explanation of the concept stated
- The following constitute the award of presentation mark, where applicable:
  - proper account or statement title
  - indication of \$ (or \$'000) for the relevant amount columns
  - proper headings in the financial statements
  - narrations for journal entries
  - account/statement presented in accordance with specifications in the question

**QUESTION 1****Marks**

Limitations:

6

- information is mostly quantitative
  - data relate to past events only
  - different use of accounting methods and policies makes intra-company comparison difficult
  - neglect of time value of money hinders users to do inter-period comparison of the company
- (2 marks for each relevant limitation, max. 6 marks)

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**Total: 6 marks**

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**QUESTION 2**

Ways:

4

- inventory management: ensure a reasonable stock level to avoid wear and tear from over-storage
  - revision of design of the production process: to locate and correct the problem that leads to the defect
  - quality control: set standards to ensure goods provided are of high quality
- (2 marks for each relevant ways, max. 4 marks)

---

**Total: 4 marks**

---

**QUESTION 3**

(a) Purposes:

2

- risk diversified
  - simplified assets management
- (2 marks for each relevant purpose, max. 2 marks)

(b) Suggestions:

2

- fixed time deposit
  - government bonds
  - exchange fund bills
- (1 mark for each relevant suggestion, max. 2 marks)

---

**Total: 4 marks**

---

**QUESTION 4**

Principles and their examples:

4

- courtesy: the tone is rude and offensive (e.g. negative description of staff's educational background)
  - concreteness: the purpose is not clearly stated (e.g. suspension on staff's salary)
  - completeness: important information has been omitted (e.g. the period for the suspension of salary)
- (2 marks for each relevant point, max. 4 marks)

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**Total: 4 marks**

---

# QUESTION 5

Marks

(a)	Statement of financial position as at 31 December 2011		
	\$	\$	
	<b>Non-current assets</b>		
	Office equipment	220 000	½
	<b>Current assets</b>		
	Inventory	42 000	½
	Trade receivables	67 000	½
		<u>109 000</u>	
	<b>Less: Current liabilities</b>		
	Trade payable	(26 300)	½
	Bank overdraft	<u>(17 600)</u>	½
		65 100	
	<b>Less: Non-current liabilities</b>		
	Loan from Sam's Company	<u>(38 000)</u>	½
		<u>247 100</u>	
	<b>Financed by</b>		
	Capital as at 1 January 2011	231 000	½
	Add: Net profit	16 100	1
		<u>247 100</u>	
		(Presentation: ½)	
		(5)	
(b)	Gross Profit ratio:		
	[\$109 000 - (\$34 000 + \$76 100 - \$42 000)] / \$109 000 × 100%		1
	= 37.52%		1
		(2)	
	Total: 7 marks		

# QUESTION 6

(a)	– \$38 000	1
	– going concern	1
	– as the business discontinued its operation in the foreseeable future, assets should not be valued at historical cost but current market value	1
		(3)
(b)	Adverse effects to	4
	– lenders: may fail to collect all their money lent to the business	
	– customers: may fail to receive products / services they paid for	
	– suppliers: may fail to collect all the payments for their goods sold or services provided	
	– government: may fail to collect the tax due	
	(2 marks for each relevant point, max. 4 marks)	
		<hr/> Total: 7 marks

**QUESTION 7****Marks**

- (a) Reasons: 4
- share of risk / workload
  - more sources of capital
  - more expertise / innovative ideas
- (2 marks for each relevant reason, max. 4 marks)
- (b) Criteria and its examples: 4
- specific: e.g. earn a definite amount of profit
  - time-based: e.g. earn a certain amount of profit in the first year of operations
  - measurable: e.g. achieve a 10% increase in profit
  - challenging but attainable: e.g. earn a reasonable amount of profit
- (2 marks for each relevant point, max. 4 marks)

---

**Total: 8 marks**

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**END OF PAPER 1**



**PAPER 2A**  
**Accounting Module**  
**Elective Part**

**General Principles of Marking**

1. The answers given in this marking scheme are 'suggestions' only. Other relevant answers will also be accepted.
2. In questions asking for a specified number of reasons or examples etc. and a student gives more than the required number, the extra answers should not be marked. For instance, in a question asking students to provide two examples, and if a student gives three answers, only the first two should be marked.
3. The general guidelines for points which are awarded 0 to 2 marks each are as follows:
 

0 mark	:	irrelevant or ambiguous answers
1 mark	:	relevant phrases containing key words that answer the question
2 marks	:	a relevant point or answer with a brief explanation of the concept/key words stated
4. The following constitute the award of presentation mark, where applicable:
  - proper account or statement title
  - indication of \$ (or \$'000) for the relevant amount columns
  - proper headings in the financial statements
  - narrations for journal entries
  - account/statement presented in accordance with specifications in the question

**SECTION A**

**QUESTION 1**

**Marks**

(a)	Sales Ledger Control						
	2011		\$	2011		\$	
	½ Jan 1	Balance b/d	33 500	Dec 31	Returns inwards	3 200	½
	½ Dec 31	Sales	742 070		Bank	602 120	½
	½	Bank - dishonoured cheques	12 420		Discounts allowed	3 500	½
					Bad debts	650	½
					Set-off	1 000	½
					Balance c/d	177 520	1
			787 990			787 990	(5)

- (b) Reasons: (max) 2
- identify omission of transactions and errors in subsidiary accounts
  - detect, avoid and prevent fraud and misstatement
- (2 marks for each relevant reason)

Total: 7 marks

## QUESTION 2

Marks

(a) (1) <u>Depreciation expenses of machinery for the year ended 31 December 2011:</u>						
					\$	
	Depreciation on old machinery	(\$3 600 000 – \$3 455 000)			145 000	1
	Depreciation on new machinery	(\$2 400 000 + \$60 000) × 25% × 10/12			512 500	1½
	Total depreciation expenses of machinery				<u>657 500</u>	½
						(3)
(2)		Accumulated depreciation - Lorries				
	2011	\$	2011	\$		
½	Dec 31 Balance c/d	1 702 800	Jan 1 Balance b/d	1 200 000		½
			Dec 31 Profit and Loss (w1)	502 800		2
		<u>1 702 800</u>		<u>1 702 800</u>		
						(3)
				\$		
	(w1) Depreciation on existing lorries	[(1 850 000 – \$1 200 000) × 20%]		130 000		
	Depreciation on new lorries	(\$1 900 000 – \$36 000) × 20%		372 800		
	Total depreciation expenses of lorries			<u>502 800</u>		
(b) It does not violate the consistency concept						1
	Reasons:					(max) 1
	– consumption pattern is different for different types of non-current assets					
	– the company is consistently applying the same depreciation method for the same type of non-current assets;					
	(1 mark for each relevant reason)					(2)
					<u>Total: 8 marks</u>	

## QUESTION 3

(a) It refers to a set of processes, customs, policies and laws affecting the way a corporation is directed, administered or controlled.						2
(b) Ways:						(max) 4
	– hard evidence has to be provided to support any changes in accounting estimates					
	– appoint individual who does not have a close relationship with the management as the director					
	– ensure an appropriate mix of dependent and independent directors					
	(2 marks for each relevant way)					
	– develop a code of ethics					
					<u>Total: 6 marks</u>	

# QUESTION 4

Marks

(a) Budgeted total value of closing inventories:

	\$	
Direct material cost	40.0	½
Transportation cost on direct materials	2.0	½
Direct labour cost (\$60.5 × 2)	121.0	1
Variable production overheads (\$1 203 000 – \$1 159 000) / (\$66 000 – \$58 000)	5.5	1
Total variable cost per unit	168.5	
Unit of closing inventories (5000 – 4400)	× 600	1
	101 100	

(4)

(b) Budgeted total amount of contribution:

	\$	
Selling price per unit	300.0	½
Less: Total variable cost per unit	168.5	½
Sales commissions	8.0	1
Contribution per unit	123.5	
Number of unit sold	× 4 400	
	543 400	1

(3)

(c) Budgeted total amount of net profit:

	\$	
Total contribution	543 400	
Less: Distribution expenses	50 000	½
Fixed production overheads (\$840 000 ÷ 12)	70 000	1
	423 400	½

(2)

Total: 9 marks

## SECTION B

### QUESTION 5

Marks

(a)		Cash at bank				
2011		\$	2011		\$	
1	Dec 31	Trade receivables – credit transfer (ii)	46 250	Dec 31	Balance b/d	9 530 ½
½		Balance c/d	49 895		Chloe Ltd: Returned cheque	72 530 1
					Connie Fashion Co (\$25 300 – \$23 500) (i)	1 800 1
					Carmen Co – Post-dated cheque (i)	7 235 1
					Management fees	5 025 1
					Bank charges	25 1
			<u>96 145</u>			<u>96 145</u>

(7)

(b)		Bank reconciliation statement as at 31 December 2011				
		\$	\$			
	Balance as per adjusted cash book		(49 895)	½		
Add:	<u>Unpresented cheques</u>					
	– 532009 (\$10 500 – \$10 000 – \$300) (iv)	200	1½			
	– 532020	31 600	½			
	– 532022	<u>68 760</u>	½		<u>100 560</u>	
					50 665	
Less:	Uncredited deposit – Cherry Ltd	8 005	1			
	Bank error – incorrect debit (iii)	<u>105 660</u>	1		<u>113 665</u>	
	Balance as per bank statement				<u>(63 000)</u>	

(5)

- (c) Reasons: (max) 2
- insufficient cash in drawer's account
  - post-dated cheque
  - wrong drawee's name/drawers signature
- (1 mark for each relevant reason)

14 marks
Presentation : 1 mark
<u>Total: 15 marks</u>

# QUESTION 6

Marks

- (a) – Direct costs are those costs that can be specifically identified / traced with a particular cost object (e.g. direct materials) 1+1  
 – Indirect costs cannot be identified / traced specifically with a given cost object (e.g. rent and rates) 1+1  
 (4)

(b)

(1) Statement to calculate the total fixed production overheads of Department A and Department B

		Dept A	Dept B	Maintenance	Product design	
	Basis	\$	\$	\$	\$	
Departmental production overheads	Direct allocation	96 000	32 000	14 000	6 000	½
Air-conditioning and lighting	Floor area	336 000	528 000	120 000	72 000	½
Insurance for machinery	Machine cost	120 000	50 000	30 000	80 000	½
Rent and rates	Floor area	980 000	1 540 000	350 000	210 000	½
Salaries of supervisors	No. of supervisors	240 000	160 000	32 000	48 000	½
Machinery depreciation	Machine cost	216 000	90 000	54 000	144 000	½
		1 988 000	2 400 000	600 000	560 000	
Service costs from Maintenance (20%, 80%)		120 000	480 000	(600 000)		1½
Service costs from Product design (70%, 30%)		392 000	168 000		(560 000)	1½
Total production overheads		2 500 000	3 048 000	0	0	1
Number of direct labour hours		200 000				(7)
Number of machine hours			600 000			

(2) Overhead absorption rate

12.50 5.08  
 per direct labour hour per machine hour

2

(c)

Statement to calculate the budgeted unit production cost

	MP1	MP2	
	\$ / unit	\$ / unit	
Direct material costs	210.00	250.00	½
Direct labour costs (\$28 × 2.5; \$40 × 3)	70.00	120.00	½
Fixed production overheads (A) (\$12.5 × 2.5)	31.25	---	½
Fixed production overheads (B) (\$5.08 × 15)	---	76.20	½
Unit production cost	311.25	446.20	1
			(3)

- (d) The per unit selling price of MP1 = \$311.25 × 1.25  
 = \$389.0625  
 = \$389

1

1  
 (2)

Total: 18 marks

QUESTION 7

Marks

(a) (1)		Realisation			
2012		\$	2012	\$	\$
½ Jan 1	Plant and machinery	129 000	Jan 1	Loan from Andy	60 000 1
½	Office equipment	134 500		Loan from Bob	36 100 ½
½	Inventory	92 000		Capital – Carol	11 500 1
½	Trade receivables	40 500		Bank	285 700 ½
½	Bank – realisation expenses	4 920		Trade payables - Discounts	720 ½
				<i>Loss on realisation</i>	
				Capital – Andy (2/10)	1 380
				Capital – Bob (3/10)	2 070
				Capital – Carol (5/10)	3 450 6 900 } 1
		<u>400 920</u>			<u>400 920</u>

(7)

(2)		Bank			
2012		\$	2012	\$	
Jan 1	Balance b/d	2 200	Jan 1	Realisation expenses	4 920 ½
½	Realisation	285 700		Loan from Bob (\$50 000 – \$36 100)	13 900 1
½	Capital – Carol	9 250		Trade payables (\$50 200 – \$720)	49 480 1
				Accrued expenses	11 500 ½
				Capital – Andy	190 920 ½
				– Bob	26 430 ½
		<u>297 150</u>			<u>297 150</u>

(5)

(3)				Capital			
2012	Andy	Bob	Carol	2012	Andy	Bob	Carol
	\$	\$	\$		\$	\$	\$
½ Current account			6 300	Balance b/d	178 000	22 000	12 000
½ Realisation	1 380	2 070	3 450	Current account	14 300	6 500	
½ Realisation			11 500	Bank			9 250
1 Bank	190 920	26 430					
	<u>192 300</u>	<u>28 500</u>	<u>21 250</u>		<u>192 300</u>	<u>28 500</u>	<u>21 250</u>

(4)

(4)

- (b) Advantages: (max) 2
- will not affect the initial investment made by the partners as transactions between partners and the partnership during the year can be shown through the current accounts instead of the capital accounts
  - debit balance of the current account due to a partner's excessive drawings could be used as a signal or warning to other partners

(2 marks for each relevant advantage)

Total: 18 marks

## SECTION C

### QUESTION 8

Marks

(a) (1)		\$	
Fixed production overheads (\$1 000 000 × 80%)		800 000	½
Fixed selling expenses (\$900 000 × 2/3)		600 000	½
Fixed administrative expenses		528 500	½
		<u>1 928 500</u>	½
			(2)

(2)		\$	
Direct materials		480 000	} ½
Direct labour		320 000	
Variable production overheads (\$1 000 000 × 20%)		200 000	½
Sales commission (\$900 000 × 1/3)		300 000	½
		<u>1 300 000</u>	½
			(2)

(b)	<u>Alternative A</u>		
Contribution per units:	\$		
Selling price	49.5		
Direct materials	(6)		
Direct labour	(4)		
Variable production overheads	(2.5)		
Sales commission	(3.75)		
	<u>33.25</u>		1

Additional sales commission: \$49.5 × 10% = \$4.95 ½

$$\begin{aligned} \therefore \text{Breakeven point (in units)} &= \frac{\$1\,928\,500 + \$52\,500}{\$33.25 - \$4.95} \\ &= \underline{70\,000 \text{ units}} \end{aligned} \quad \frac{1}{2}$$

#### Alternative B

Existing contribution: \$33.25 × 48 000 = \$1 596 000

Required contribution: (\$1 928 500 – \$1 596 000) + (\$25 000 × 12) = \$332 500 + \$300 000 = \$632 500 1

Contribution per unit sold overseas: (\$37.5 – \$6 – \$4 – \$2.5) = \$25 1

Additional units to breakeven: \$632 500 / \$25 = 25 300 units ½

$$\begin{aligned} \therefore \text{Breakeven point (in units)} &= 48\,000 + 25\,300 \\ &= \underline{73\,300 \text{ units}} \end{aligned} \quad \frac{1}{2}$$

(5)

#### (c) Alternative A

	\$	
Contribution per unit	33.25	
Additional sales commission	(4.95)	
	<u>28.3</u>	
Expected sales units	× 76 000	½
	<u>2 150 800</u>	
Total fixed cost	(1 928 500)	½
Increase in advertising expenses	(52 500)	½
	<u>169 800</u>	½

#### Alternative B

	\$	
Existing contribution (\$33.25 × 48 000)	1 596 000	½
Contribution from selling overseas (\$25 × 32 000)	800 000	1
	<u>2 396 000</u>	
Total fixed cost	(1 928 500)	½
Cost of producing catalogue	(300 000)	½
	<u>167 500</u>	½

As profit is higher under alternative A, alternative A should be recommended. 1

(6)

**QUESTION 8 (Cont'd)****Marks**

(d) Financial factors:

(max) 2

- risk in collecting debt from overseas
  - unavoidable / avoidable cost elements in calculating profits
- (2 marks for each relevant financial factor)

(e)

	\$	
Cost of hire the equipment	125 000	
Total direct labour cost saved ( $\$4 \times 40\%$ ) $\times$ 76 000	121 600	
Extra cost	<u>3 400</u>	

 $\frac{1}{2}$ 

1

 $\frac{1}{2}$ 

Therefore, Lucky Company should not hire the equipment.

1

(3)

---

**Total: 20 marks**

---



# QUESTION 9

Marks

(a) (1)		Journal		
2011		Dr.	Cr.	
December 31		\$	\$	
(i)	Retained profit ( $\$716\,400 \times 5\%$ )	35 820		½
	Allowance for doubtful debts		35 820	½
(ii)	Cash at bank ( $600\,000 \times \$6$ )	3 600 000		½
	Ordinary share capital ( $600\,000 \times \$2$ )		1 200 000	½
	Share premium ( $600\,000 \times \$4$ )		2 400 000	½
(iii)	Cash at bank	900 000		½
	2% Debentures		900 000	½
	Trade payables ( $\$225\,000 / 96\%$ )	234 375		½
	Cash at bank ( $\$900\,000 / 4$ )		225 000	½
	Retained profit		9 375	½
	Retained profit ( $\$900\,000 \times 2\% \times 1/12$ )	1 500		½
	Interest payable		1 500	½
(iv)	Accumulated depreciation	726 000		½
	Retained profits	9 000		½
	Property, plant and equipment		726 000	½
	Cash at bank ( $\$165\,000 - \$156\,000$ )		9 000	½
(v)	Retained profits	135 000		½
	General reserve		135 000	½
(vi)	Retained profits	424 800		½
	Prepayment		424 800	½
				(10)

QUESTION 9 (Cont'd)

Marks

(a) (2)

Dragon Ltd

Statement of financial position as at 31 December 2011

	\$	
<b>ASSETS</b>		
<b><u>Non-current Assets</u></b>		
Property, plant and equipment, net (\$4 800 000 – \$726 000) – (\$1 240 000 – \$726 000)	3 560 000	1
<b><u>Current Assets</u></b>		
Inventory	545 000	
Trade receivables, net (\$716 400 – \$35 820)	680 580	½
Cash at bank (\$760 800 + \$900 000 + \$3 600 000 – \$225 000 – \$9000)	5 026 800	1
	<u>6 252 380</u>	
<b>Total assets</b>	<u>9 812 380</u>	
<b>EQUITY AND LIABILITIES</b>		
<b><u>Equity attributable to owners of the company</u></b>		
Ordinary shares of \$2 each (\$4 000 000 + \$1 200 000)	5 200 000	½
Share premium (\$319 000 + \$2 400 000)	2 719 000	½
General reserve	135 000	½
Retained profits (\$996 500 – \$35 820 + \$9375 – \$1500 – \$9000 – \$135 000 – \$424 800)	399 755	1½
	<u>8 453 755</u>	
<b><u>Non-current Liabilities</u></b>		
2% Debentures	900 000	½
<b><u>Current Liabilities</u></b>		
Trade payables (\$691 500 – \$234 375)	457 125	½
Interest payable	1 500	½
	<u>458 625</u>	
<b>Total equity and liabilities</b>	<u>9 812 380</u>	(7)

- (b)
- should not be treated as prepayment 1
  - should be charged to income statement as expense 1
  - uncertain revenue recognition: increase in sales volume is just an estimate 1
- (3)

Total: 20 marks

END OF PAPER 2A