

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

8.30 am – 9.45 am (1 hour 15 minutes)

This paper must be answered in English

GENERAL INSTRUCTIONS

- (1) There are **TWO** sections, A and B, in this Paper. Section A consists of multiple-choice questions and Section B contains short questions.
- (2) Answer **ALL** questions in Section A. There are two parts in Section B: Answer **ALL** questions in Part 1 and **ONE** of the two questions in Part 2.
- (3) Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the Answer Book. In the Answer Book, start **EACH** question (not part of a question) on a **NEW** page.
- (4) The Answer Sheet for Section A and the Answer Book for Section B must be handed in separately at the end of the examination.

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

SECTION A (60 marks)

There are 30 questions in this section. Answer **ALL** questions. Choose the **best** answer for each question.

1. Which of the following statements about limited companies in Hong Kong is/are correct?
 - (1) A limited company is a separate legal entity.
 - (2) Limited companies enjoy a lower profits tax rate than sole proprietorships.
 - (3) Limited companies are required to publish their financial statements in a newspaper.
 - A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)

2. If an investor wants to complain about the misconduct of his broker in a share transaction, which of the following organisations should he turn to?
 - A. Hong Kong Monetary Authority
 - B. Securities and Futures Commission
 - C. Hong Kong Exchanges and Clearing Limited
 - D. Investor Compensation Company Limited

3. Which of the following are benefits of being a socially responsible business?
 - (1) lower production costs
 - (2) better business reputation
 - (3) attraction of customers who are also concerned about social responsibility
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

4. Which of the following statements about the Mandatory Provident Fund (MPF) system is correct?
 - A. Self-employed persons are not required to enrol in an MPF scheme.
 - B. Employees covered by the MPF system are required to contribute 5% of their income.
 - C. Employees can choose to make extra voluntary contributions in addition to the regular mandatory contributions.
 - D. MPF scheme members can withdraw their accrued benefits when they reach the age of 60.

5. It is a firm's practice to record free samples given to customers as promotion expenses. At the year end, the owner of the firm took some free samples for his personal use. According to the _____ concept, these free samples should be treated as _____.
 - A. business entity promotion expenses
 - B. business entity drawings
 - C. consistency promotion expenses
 - D. consistency drawings

6. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong are correct?
- (1) An SME employs fewer than 50 persons.
 - (2) SMEs contribute a majority of employment opportunities in Hong Kong.
 - (3) SMEs often provide products and services that complement large companies.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
7. Which of the following are participants in the financial market?
- (1) listed companies
 - (2) commercial banks
 - (3) securities brokers
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
8. Which of the following statements about credit cards are correct?
- (1) A credit limit is set.
 - (2) A minimum payment is set for the outstanding balance.
 - (3) Interest will not be charged on the remaining balance if the minimum payment is made before the due date.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
9. As at 31 December 2013, Quinton Company had current liabilities amounting to \$60 000 and its current ratio was 3:1 and quick ratio was 2:1. What was the amount of its inventory on that date?
- A. \$60 000
 - B. \$120 000
 - C. \$180 000
 - D. \$240 000
10. In the trial balance, if the total of debit balances is larger than the total of credit balances, it means that _____.
- A. there is a loss for the year
 - B. there is an error in the double entries
 - C. there is insufficient capital to run the business
 - D. the amount of total assets is larger than the total liabilities

11. A business earns a gross profit margin of 25%. Calculate its sales amount based on the following data:

Item	\$
Opening inventory	10 000
Closing inventory	4 000
Purchases	51 000
Selling expenses	1 500

- A. \$69 375
B. \$71 250
C. \$74 000
D. \$76 000
12. Which of the following statements about the securities market is/are correct?
- (1) Investors can buy and sell securities in the primary market.
(2) The secondary market comprises the listed exchanges and the over-the-counter market.
(3) A listed company may issue new shares to raise funds through the securities market.
- A. (1) only
B. (2) only
C. (2) and (3) only
D. (1), (2) and (3)
13. Elsa plans to use the net present value to decide whether to buy a piece of office equipment. Which of the following pieces of information does she need to make the decision?
- (1) cost of capital
(2) cashflows arising from the acquisition and use of the office equipment
(3) scrap value of the office equipment at the end of its useful life
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
14. What is the flow of an accounting cycle after the books of original entry?
- (1) balancing day adjustments
(2) financial statements
(3) ledgers
(4) trial balance
- A. (1) → (2) → (3) → (4)
B. (2) → (3) → (4) → (1)
C. (3) → (4) → (1) → (2)
D. (4) → (3) → (1) → (2)

15. Which of the following is/are the example(s) of economic factors that might affect the business of a jewellery shop in Hong Kong?
- (1) There is an increase in the income and consumption power of mainland tourists.
 - (2) The mainland government allows residents of more cities to come to Hong Kong for individual visits.
 - (3) The cross-border transport facilities are improved.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
16. On 30 December 2013, a firm bought a motor van and made a payment of \$150 000 by cheque. The van's list price was \$243 000 and a trade discount of \$15 000 was given. As at 31 December 2013, its market value had fallen to \$200 000. The van should be recorded at _____ in the statement of financial position as at 31 December 2013.
- A. \$150 000
 - B. \$200 000
 - C. \$228 000
 - D. \$243 000
17. Mr Chan is the general manager of a large supermarket chain. He sets a target for the chain: "We will increase the sales volume of the Kowloon area by 10% as soon as possible." Which of the following criteria for setting good objectives is/are **NOT** met in this target?
- (1) specific
 - (2) time-bound
 - (3) measurable
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
18. How will an increase in discounts received affect the gross profit and net profit?
- | | <u>Gross profit</u> | <u>Net profit</u> |
|----|---------------------|-------------------|
| A. | unchanged | unchanged |
| B. | unchanged | increases |
| C. | increases | unchanged |
| D. | increases | increases |
19. Which of the following accounting ratios can be calculated when only the income statement is provided?
- (1) net profit ratio
 - (2) quick ratio
 - (3) return on capital employed
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1) and (3) only

20. _____ are external users of financial statements who focus on the liquidity and solvency of the firm.
- A. Managers
 - B. Customers
 - C. Competitors
 - D. Lenders
21. Which of the following are advantages of management by objectives (MBO)?
- (1) It reduces paper work.
 - (2) It enables better control of subordinates' work progress.
 - (3) It helps to enhance coordination between different levels.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

Consider the following case and answer Questions 22-23:

Horace worked in an information technology firm for a number of years. Last year, he resigned and set up his own business providing computer repair services. His service is highly appreciated by customers but some of them comment that Horace often uses technical jargon, which they find hard to understand.

22. Which of the following are the entrepreneurial characteristics demonstrated by Horace?
- (1) seek new opportunities
 - (2) desire for independence
 - (3) receptive to innovative ideas
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
23. According to the comments of Horace's customers, Horace has violated the _____ principle of effective communication.
- A. clarity
 - B. completeness
 - C. concreteness
 - D. conciseness
24. Which of the following is an example of using quality business information to make a decision?
- A. buying shares based on the comments of a bank teller
 - B. buying foreign currencies according to the recommendations of a financial newspaper published the previous week
 - C. buying a mobile phone after reading users' reviews on the internet
 - D. buying air tickets after reading the relevant terms and conditions on the airline's webpage

25. Conducting questionnaire surveys to understand customers' needs is a part of _____.
- operations management
 - marketing management
 - information management
 - risk management
26. An asset is classified as a current asset on the statement of financial position if it _____.
- was purchased on credit more than 12 months ago
 - was purchased in cash in the last 12 months
 - is to be sold within 12 months
 - is to be used for over 12 months
27. Which of the following financial products carries the highest investment risk?
- savings deposits
 - time deposits
 - preference shares
 - ordinary shares
28. Maintaining a good personal credit record is important because it will _____.
- (1) lower the cost of loans
 - (2) increase the chance of getting loans
 - (3) increase the upper limit of 70% on mortgage loans from banks
- (1) and (2) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)
29. Miss Lee drew a personal cheque to pay an electricity bill for her business. Which of the following double entries for the business is correct?
- | | <u>Debit</u> | <u>Credit</u> |
|----|----------------------|---------------|
| A. | drawings | cash at bank |
| B. | drawings | capital |
| C. | electricity expenses | cash at bank |
| D. | electricity expenses | capital |
30. Which of the following statements about Asia-Pacific Economic Cooperation is correct?
- It provides loans to developing countries in the Asia-Pacific region.
 - It supports sustainable economic growth in the Asia-Pacific region.
 - It settles trade disputes among countries in the Asia-Pacific region.
 - It issues certificates of origin for products manufactured in the Asia-Pacific region.

END OF SECTION A

SECTION B (30 marks)

Part 1 (20 marks) Answer **ALL** questions in this part.

1. Patrick, Queenie and Ronald jointly set up a business in the form of a limited partnership. The partnership agreement contains the following terms:
 - Only Queenie and Ronald will contribute capital.
 - Patrick and Ronald have no involvement in the daily operations of the partnership.
 - If the partnership is liquidated, only Queenie has to pay the outstanding debts of the partnership, using her personal funds.
 - (a) Identify the nominal partner in this partnership. (1 mark)
 - (b) Suggest two contributions that a nominal partner could make to a partnership. (4 marks)

2. Superfast Company provides software and system development services and has about 100 employees. Daniel, the owner and general manager of the firm, is a computer specialist and has involved himself heavily in the software and system development work. A business consultant advised him that as the general manager of the company, he should be aware of the relative importance of technical, conceptual and interpersonal skills. Also, the company should set up a marketing department to help reduce his workload.
 - (a) Which of the three types of management skills mentioned above is the most important for Daniel as the general manager of Superfast Company? Explain why. (3 marks)
 - (b) State two functions of a marketing department in Superfast Company. (2 marks)

3.
 - (a) Tony is the sole owner of a toy trading business. State the book of original entry for the recording of each of the following transactions of Tony's business:
 - (i) Sold toys to customers on credit
 - (ii) Received a credit note for toys returned
 - (iii) Paid salaries to office clerks by autopay(3 marks)
 - (b) From the accounts for recording the transactions in (a), identify one example for each of the following types of ledger accounts:
 - (i) Real account
 - (ii) Nominal account(2 marks)

4. Tom plans to get married and buy a flat three years later. The budgeted price of the flat is \$3 000 000. The down payment will be 30% of the flat's price. To save up for the down payment, Tom decides to make a time deposit in a bank.
- (a) If the bank offers an annual interest rate of 2% for the time deposit, how much money does Tom have to deposit today? (Note: Interest is compounded annually. Correct all amounts to the nearest dollar.) (2 marks)
- (b) A friend of Tom advises him to invest the sum of money in securities for higher return. Given that Tom needs the amount three years later for the down payment on the flat, would you advise him to invest in government bonds or ordinary shares? Explain why. (3 marks)

Part 2 (10 marks) Answer **ONE** question in this part.

5. Mike sells imported tableware to restaurants. The following balances were obtained from the books of accounts as at 31 December 2013:

	\$
Accounts payables	15 000
Accounts receivables	27 000
Bank loan (repayable in March 2015)	22 000
Bank overdraft	11 000
Capital, 1 January 2013	?
Furniture and fixtures	63 000
Inventory	7 000
Net profit for the year	3 800
Rental deposit	20 000

- (a) Prepare for Mike the statement of financial position as at 31 December 2013. (5 marks)

Mike learns from a research report that the materials of some of his inventory may be harmful to people's health. He plans to give away these items as free gifts to his customers, without mentioning the potential health hazards. His wife warns him that this is an unethical practice and will adversely affect his business.

- (b) If Mike decides to give away those items as planned, explain two possible adverse impacts on his business. (4 marks)
- (c) Apart from customers, identify another stakeholder of Mike's business. (1 mark)

6. Sunshine Department Store had the following financial information for the year ended 31 December 2013:

	\$
Carriage inwards	9 000
Inventory, 1 January 2013	80 000
Inventory, 31 December 2013	60 000
Purchases	120 000
Rent and rates	48 000
Return inwards	2 000
Sales	268 000
Sundry expenses	30 000

- (a) Prepare an income statement for Sunshine Department Store for the year ended 31 December 2013. (5 marks)

Two managers of the same rank, David and Ellen, together supervise all the shop assistants. One day, an assistant in the sportswear section took sick leave and David assigned a newly employed assistant to take her place. He asked her to serve customers in the section for the rest of the day. At noon, Ellen asked this assistant to deliver a document to a supplier.

- (b) (i) What principle of effective management has been violated in the above case? (1 mark)
- (ii) Suggest two problems that might arise when the principle in (i) is violated. (4 marks)

END OF PAPER

**2014-DSE
BAFS**

PAPER 2A

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2014

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A
Accounting Module

10.30 am – 12.45 pm (2 hours 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.
- (3) Write your answers in the answer book. Start **EACH** question (not part of a question) on a **NEW** page.

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

SECTION A (24 marks)

Answer **ALL** questions in this section.

1. The trade receivables of A&B Company as at 1 December 2013 amounted to \$399 700. The following information relates to the month ended 31 December 2013:

	\$
Cash sales	217 600
Credit sales	4 392 400
Returns outwards	373 200
Returns inwards	23 280
Allowance to customers for defective goods	31 120
Collections from credit customers	4 137 400
Payments to suppliers	2 050 200
Bad debts written off	36 000

REQUIRED:

- (a) Write up the sales ledger control account for the month ended 31 December 2013. (4 marks)
- (b) The opening balance of the allowance for doubtful debts account as at 1 January 2013 amounted to \$38 000. Suppose the company estimated that 6% of the trade receivables as at 31 December 2013 was doubtful. Prepare the journal entry for adjusting the allowance for doubtful debts as at 31 December 2013. (3 marks)

(Total: 7 marks)

2. Angel Company has its financial year ending on 31 December. It purchased a machine for \$240 000 on 1 January 2011. The machine has been depreciated using the straight-line method based on an estimated useful life of 10 years and residual value of \$4000. The depreciation expense is calculated on a monthly basis.

On 1 January 2012, an amount of \$180 000 was spent on the machine to increase its productivity. It was expected that after the improvement, the annual repair costs would be reduced by \$13 500, with no change in the remaining useful life and residual value.

Unfortunately, the machine was totally destroyed in an accident on 30 June 2013. On 15 October 2013, the insurance company agreed to pay compensation of \$210 000 in January 2014.

REQUIRED:

- (a) Compute the depreciation expense for the machine for each of the three years of 2011, 2012 and 2013. (4 marks)
- (b) Prepare the journal entries for recording the disposal of the machine in 2013. Narration is not required. (3 marks)

(Total: 7 marks)

3. A company uses a machine for production. For each of the descriptions in (a) to (d) below, indicate which of the following cost classifications is most suitable:

- * fixed cost
- * variable cost
- * semi-variable cost
- * step cost
- * sunk cost
- * incremental cost
- * opportunity cost

- (a) A worker is employed to operate the machine for a monthly wage of \$6000 plus \$0.3 per unit produced. The total cost of hiring the worker is a / an _____.
- (b) The machine has a net book value of \$52 000. In evaluating whether to sell the machine, the net book value is a / an _____.
- (c) The machine can now be sold for \$5000. If the company decides to retain and use it, the saleable value is a / an _____.
- (d) If the machine is sold, the company will rent a new machine for \$20 000 per annum. Under marginal costing, the annual rental charge for the new machine is a / an _____.

(4 marks)

4. Beauty Sports Company produces and sells two types of aerobic-training products: instructional DVDs and dancer kits. Information on the two products in 2014 is as follows:

	<u>DVD</u>	<u>Dancer Kit</u>
Unit selling price	\$150	\$600
Unit variable cost	\$30	\$125

The annual total fixed cost is \$860 000.

REQUIRED:

- (a) In 2013, Beauty Sports Company sold 25 000 DVDs and 5000 dancer kits. Assuming that the ratio of the sales quantity of the two products will be maintained, calculate the sales quantity of each product in 2014 at the breakeven point. (3 marks)

From 2015 onwards, Beauty Sports Company will produce and sell dancer kits only. Improvements will be made to the dancer kits and it is estimated that the unit variable cost will increase by \$75 while the projected sales quantity is 6250 with no change in the selling price. The annual total fixed cost will be reduced by \$160 000.

REQUIRED:

- (b) Calculate the margin of safety in sales dollars for Beauty Sports Company in 2015. (3 marks)

(Total: 6 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

5. Abby and Bobby are partners sharing profits and losses in the ratio of 2:3 respectively. The following terms are included in the partnership agreement:
- Interest on partners' capital is 8% per annum.
 - Interest on partners' drawings is charged at 10% per annum.
 - Abby is entitled to an annual salary of \$60 000.

The following balances were extracted from the books of the partnership as at 31 December 2013:

	Dr	Cr
	\$	\$
Capital accounts – Abby		150 000
– Bobby		300 000
Current accounts – Abby	43 000	
– Bobby		27 000
Partners' salary – Abby	20 000	
9% bank loan		280 000
Inventory	84 000	
Accounts receivable	250 000	
Accounts payable		126 000
Net profit for the year		165 000
Drawings – Abby (withdrawn on 1 March 2013)	18 000	
– Bobby (withdrawn on 1 September 2013)	12 000	

Additional information:

- (i) Interest on the 9% bank loan for the quarter ended 31 December 2013 had not been paid or provided for.
- (ii) During the year, goods invoiced at \$20 000 were sent to a customer on a sale-or-return basis. These goods had been marked up at 25% on cost and recorded as sales for the year. As at 31 December 2013, only 80% of these goods were accepted by the customer.

REQUIRED:

- (a) Prepare a statement to calculate the partnership's adjusted net profit for the year ended 31 December 2013. (2 marks)
- (b) Prepare the partnership's appropriation account for the year ended 31 December 2013. (4 marks)
- (c) Update the partners' current accounts in columnar form as at 31 December 2013. (5 marks)

(Total: 11 marks)

6. Peter started his business on 1 January 2012. A fire on 31 December 2013 destroyed some accounting records and inventory. The following balances as at 31 December were extracted from the remaining records:

	2013	2012
	\$	\$
Office equipment, at cost (all purchased on 1 January 2012)	180 000	180 000
Inventory	65 000	75 000
Trade receivables	80 000	90 000
Trade payables	32 000	18 000

The following information relating to the year ended 31 December 2013 was also available:

- (i) All goods were sold on credit and sales were evenly spread throughout the year. All goods were sold at the uniform margin of 60% on sales.
- (ii) The average trade receivables collection period was 2 months.
- (iii) All purchases were on credit and the average trade payables turnover was 9 times.
- (iv) Advertising expenses of \$8000, rental expenses of \$37 200 and salaries of \$144 000 were incurred in 2013. No compensation would be received for the fire loss.
- (v) Depreciation is to be provided at the annual rate of 20% using the reducing-balance method.

REQUIRED:

- (a) Prepare for Peter's business the income statement for the year ended 31 December 2013, showing all the necessary items including sales, purchases and inventory loss. (9 marks)
- (b) Although accounting ratios are useful tools in financial analysis, there are limits to their usefulness. State two of these limitations. (2 marks)

(Total: 11 marks)

7. Goodwork Company uses the job costing system and applies a plant-wide production overhead absorption rate based on direct labour hours. The predetermined rate for the year ended 31 March 2014 was \$7.0 per direct labour hour. The actual total production overheads and total direct labour hours for the year were \$1 100 000 and 180 000 hours respectively.

REQUIRED:

- (a) Calculate the under- or over-absorption of production overheads of Goodwork Company for the year ended 31 March 2014. (2 marks)
- (b) Despite the inevitable occurrence of under- or over-absorption of production overheads, a predetermined overhead rate is more commonly used than an absorption rate based on actual data. Explain why. (2 marks)

The following data relate to the two production departments of Goodwork Company for the coming year, which will end on 31 March 2015:

	<u>Department A</u>	<u>Department B</u>
Total material cost (of which 30% is direct materials)	\$300 000	\$100 000
Total labour cost (of which 80% is direct labour)	\$820 000	\$530 000
Factory depreciation	\$339 000	\$66 000
Other indirect expenses	\$126 000	\$24 000
Normal activity (direct labour hours)	100 000 hours	70 000 hours

REQUIRED:

- (c) Calculate (to one decimal place) the plant-wide production overhead absorption rate of Goodwork Company for the year ending on 31 March 2015. (3 marks)

Two job orders, Job #103 and Job #104, have been scheduled for the coming year. The direct labour usage is estimated as follows:

	<u>Department A</u>	<u>Department B</u>
Job #103	1000 hours	3000 hours
Job #104	3300 hours	1100 hours

REQUIRED:

- (d) Calculate the overhead cost to be assigned to each of the two job orders using the plant-wide production overhead absorption rate obtained in (c) above. (2 marks)

Goodwork's plant manager heard that departmental production overhead absorption rates could be better for cost assignment than a plant-wide rate.

REQUIRED:

- (e) Based on the estimated direct labour usage of Job #103 and Job #104 above, explain whether departmental overhead rates or a plant-wide rate will provide a fairer overhead assignment. Support your answer with calculations. (5 marks)

(Total: 14 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

8. After preparing the necessary entries to calculate the cost of goods sold, the bookkeeper of Windy Company Limited prepared the trial balance as at 31 December 2013 as follows:

	Dr	Cr
	\$	\$
\$5 Ordinary shares, fully paid		1 500 000
Accumulated depreciation – equipment, 1 January 2013		630 000
Administrative expenses	276 000	
Cash at bank	5 126 400	
Cost of goods sold	1 220 000	
Equipment	3 769 000	
Finance cost	24 000	
Inventory, 31 December 2013	253 200	
Retained profits, 1 January 2013		566 000
Sales		1 950 000
Selling and distribution expenses	168 400	
Share issue		6 000 000
Share premium		209 500
Trade receivables and trade payables	381 600	363 100
	<u>11 218 600</u>	<u>11 218 600</u>

Additional information:

- On 1 July 2013, a rubbish bin costing \$60 was bought for office use. The estimated useful life is 5 years. The amount had been included in the administrative expenses.
- Depreciation expenses of \$182 000 for 2013 had been omitted. It is the company's practice to classify depreciation expenses as administrative expenses.
- Goods invoiced at \$38 000 were returned by a credit customer but this had been recorded as returns outwards to a supplier at the purchase cost of \$23 600. The goods had been included in the closing inventory at cost.
- Part of the closing inventory costing \$53 240 was slightly damaged and could only be sold for \$33 440.
- On 21 December 2013, 600 000 ordinary shares of \$5 each were issued at \$8 each. The subscription monies for 750 000 shares were received and recorded in the cash at bank and share issue accounts. Shares were allotted and the unsuccessful applicants refunded on 30 December 2013 but no entries had been made in the books.
- On 31 December 2013, the board of directors resolved to transfer \$500 000 to general reserve.

REQUIRED:

- With reference to a relevant accounting principle, explain whether the accounting treatment for the rubbish bin in (i) is proper. (3 marks)
- Prepare for Windy Company Limited the income statement for the year ended 31 December 2013 and the statement of financial position as at that date. (13 marks)
- If Windy Company Limited issued debentures instead of ordinary shares in December 2013, explain how the profitability and solvency of the company will be affected in the coming years. (4 marks)

(Total: 20 marks)



9. Nice Company is a retail shop selling computer hardware. The balance of the company's cash at bank account as at 31 December 2013 amounted to \$56 000 and did not agree with the bank statement balance on that date. The following information relating to the financial year ended 31 December 2013 was available:

- (i) A payment by cheque to a supplier for \$2700 had been wrongly recorded as a receipt in the cash at bank account and posted to the related personal account in the purchases ledger accordingly.
- (ii) Dividend income amounting to \$1250 had been credited by the bank but had not been recorded in the company's cash at bank account.
- (iii) A credit transfer of \$3500, from a source unknown to the company and dated 15 December 2013, was recorded in the bank statement. Subsequent investigation revealed that the transfer should have been made to another customer of the bank with a similar name.
- (iv) A debit of \$3260 was recorded in the bank statement for a dishonoured cheque.
- (v) The cash at bank account included a post-dated cheque for \$6750 received from a customer. The cheque was still kept in the cashier's desk on 31 December 2013.
- (vi) As at 31 December 2013, unpresented cheques amounting to \$5500 and a deposit of \$53 100 had not been recorded by the bank.
- (vii) In launching a new product, samples were sent free of charge to a customer in November 2013 but this had been wrongly recorded as a credit sale of \$22 900 to the customer. The cost of these goods was \$16 000.
- (viii) Rental amounting to \$20 400 for the year ended 31 March 2014 was paid on 1 April 2013 and the whole amount had been debited to the rental expenses account.
- (ix) Starting from November 2013, Nice Company provides maintenance services to customers, who are required to pay a maintenance fee in advance. The following receipts were credited to the maintenance expenses account:

Service Plan Commencement Date	2-year Service Plan	3-year Service Plan
1 November 2013	—	\$108 000
1 December 2013	\$72 000	\$144 000

REQUIRED:

- (a) Update the cash at bank account as at 31 December 2013. (5 marks)
- (b) Write up a bank reconciliation statement as at 31 December 2013, commencing with the updated balance of the cash at bank account. (4 marks)
- (c) Prepare the journal entries necessary for items (vii) to (ix). Narrations are not required. (5 marks)
- (d) Identify the relevant revenue recognition principle and explain your accounting treatment for item (ix). (3 marks)

Subsequent to the preparation of the financial statements for the year ended 31 December 2013, the owner of Nice Company was surprised to find that the bank balance had decreased even though the net profit had increased.

REQUIRED:

- (e) Briefly describe two transactions that will result in increases in a company's net profit but will not cause corresponding increases in its cash and bank balances. (3 marks)

(Total: 20 marks)

END OF PAPER

Marking Schemes

This document was prepared for markers' reference. It should not be regarded as a set of model answers. Candidates and teachers who were not involved in the marking process are advised to interpret its content with care.

PAPER 1 Compulsory Part

SECTION A

Question No.	Key	Question No.	Key
1.	A (83%)	16.	C (52%)
2.	B (56%)	17.	B (74%)
3.	C (91%)	18.	B (74%)
4.	C (41%)	19.	A (75%)
5.	B (82%)	20.	D (80%)
6.	C (44%)	21.	C (90%)
7.	D (78%)	22.	A (75%)
8.	A (57%)	23.	A (64%)
9.	A (76%)	24.	D (72%)
10.	B (80%)	25.	B (73%)
11.	D (62%)	26.	C (60%)
12.	C (57%)	27.	D (78%)
13.	D (58%)	28.	A (52%)
14.	C (85%)	29.	D (68%)
15.	A (71%)	30.	B (54%)

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 and those brought up in light of live scripts and discussions at the Markers' Meeting are 'suggestions' only. There are answers that are not mentioned but nevertheless are equally valid.
- Where the number of points required is specified in a question, the first listed points will be marked up to the number required, and other points crossed out as 'excess'.
- The guidelines for points of 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 answer with a brief explanation of the concept/key words stated

PART 1

QUESTION 1

Marks

- (a) Nominal partner: Patrick 1
- (b) Contributions: Max. 4
- provide professional advice
 - enhance reputation of the business
 - strengthen business linkages
- (2 marks for each relevant contribution, max. 4 marks)

5 marks

QUESTION 2

Marks

- (a) Conceptual skill 1
- A general manager should possess the ability to think creatively and to analyse and understand complicated and abstract ideas in order to perform management functions such as planning and organising 2
- (b) Functions: Max. 2
- identify and/or create market opportunities
 - determine market position
 - select target market
 - formulate and evaluate marketing strategies (4Ps)
 - implement and monitor marketing activities
 - manage customer relationship
- (1 mark for each relevant function, max. 2 marks)

5 marks

QUESTION 3

Marks

- (a) Books of original entry:
- (i) Sales Day Book / Sales Journal 1
 - (ii) Return Outwards Day Book / Return Outwards Journal 1
 - (iii) Cash Book 1
- (b) (i) Real account: Max. 1
- Cash at bank, trade receivables, trade payables
(1 mark for each relevant example, max. 1 mark)
- (ii) Nominal account: Max. 1
- sales, return outwards, office salaries
(1 mark for each relevant example, max. 1 mark)

5 marks

QUESTION 4

Marks

- (a) Present value = $(\$3\,000\,000 \times 30\%) / (1.02)^3 = \underline{\underline{\sim \$848\,090}}$ 2
- (b) Government bonds 1
 Lower investment risk with higher certainty of achieving the required amount: 1
 – Tom will receive fixed income during the 3 years to achieve the target return Max. 1
 – Tom will get back the principal if he buys a bond that will mature in 3 years
 – dividends of ordinary shares are not obligatory and may vary between years and hence the target return cannot be guaranteed
 – share prices fluctuate and Tom may incur capital loss when the shares are sold three years later
 (1 mark for any relevant point, max. 1 mark)

5 marks

PART 2

QUESTION 5

Marks

- (a) Mike
 Statement of financial position as at 31 December 2013 ½
- | | | | |
|---|--------|----------------|---|
| Non-current assets | \$ | \$ | |
| Furniture and fixtures | | 63 000 | ½ |
| Current assets | | | |
| Inventory | 7 000 | | ½ |
| Rental deposit | 20 000 | | ½ |
| Accounts receivable | 27 000 | 54 000 | ½ |
| TOTAL ASSETS | | <u>117 000</u> | |
| Capital, 1 January 2013 (<i>balancing figure</i>) | | 65 200 | ½ |
| Add: Net profit | | 3 800 | ½ |
| | | 69 000 | |
| Non-current liabilities | | | |
| Bank loan | | 22 000 | ½ |
| Current liabilities | | | |
| Accounts payable | 15 000 | | ½ |
| Bank overdraft | 11 000 | 26 000 | ½ |
| TOTAL CAPITAL AND LIABILITIES | | <u>117 000</u> | |
- (5)
- (b) Adverse impacts: Max. 4
 – unethical practice will harm the reputation of Mike's business
 – customers lose confidence and sales and prospects will be affected
 – affected customers may claim compensation from Mike
 (2 marks for each relevant adverse impact, max. 4 marks)
- (c) Stakeholder: Max. 1
 – employees, suppliers/creditors, distributors, government, public
 (1 mark for each relevant stakeholder, max. 1 mark)

10 marks

QUESTION 6

Marks

(a)		Sunshine Department Store		
		Income statement for the year ended 31 December 2013		½
		\$	\$	
Sales			268 000	½
Less : Return inwards			<u>2 000</u>	½
Net sales			266 000	
Less : <u>Cost of goods sold</u>				
Opening inventory	80 000			½
Add: Purchases	120 000			½
Carriage inwards	<u>9 000</u>			½
	209 000			
Less: Closing inventory	<u>60 000</u>	149 000		½
Gross profit		117 000		
Less: <u>Expenses</u>				
Rent and rates	48 000			½
Sundry expenses	<u>30 000</u>	<u>78 000</u>		½
Net profit		<u>39 000</u>		½
				(5)

- (b) (i) Unity of command 1
- (ii) Problems: Max. 4
- contradictory instructions will cause confusion to the subordinates
 - unclear chain-of-command / line of authority will cause conflicts between the managers
- (2 marks for each relevant problem, max. 4 marks)

10 marks

END OF PAPER 1

PAPER 2A
Accounting Module

General Principles of Marking

1. The answers given in this marking scheme and those brought up in light of live scripts and discussions at the Markers' Meeting are 'suggestions' only. There are answers that are not mentioned but nevertheless are equally valid.
2. Where the number of points required is specified in a question, the first listed points will be marked up to the number required, and other points crossed out as 'excess'.

.....

SECTION A

QUESTION 1

Marks

		Sales ledger control				
		2013	\$	2013	\$	
½	Dec 1	Balance b/d	399 700	Dec 31	Returns inwards	23 280 ½
½	31	Sales	4 392 400		Sales allowance	31 120 ½
					Bank / cash	4 137 400 ½
					Bad debts	36 000 ½
					Balance c/d	564 300 1
			<u>4 792 100</u>		<u>4 792 100</u>	(4)

		Journal				
			Dr	Cr		
			\$	\$		
	2013					
	Dec 31	Allowance for doubtful debts	4 142			} 2½
		Bad debts / Profit and loss / Income summary		4 142		}
		(Decrease in allowance for doubtful debts recorded)				½
						(3)

7 marks

Workings: Balance b/d	\$38 000
Balance c/d (\$564 300 × 6%)	<u>\$33 858</u>
Decrease in allowance (Dr.)	<u>\$4 142</u>

Marks

- (b)

QUESTION 3

- ### QUESTION 4

- 6 marks

SECTION B

QUESTION 5

Marks

(a)

Abby and Bobby Statement showing the calculation of the adjusted net profit for the year ended 31 December 2013

	\$	\$	
Net profit		165 000	
Less: Interest on bank loan (i) ($\$280\,000 \times 9\% \times 3/12$)	6 300		½
Adjustment for goods sent on sale-or-return basis (ii) ($\$20\,000 \times 20\% \times 25/125$)	800	7 100	1
Adjusted net profit		<u>157 900</u>	½

(2)

(b)

Abby and Bobby Profit and loss appropriation account for the year ended 31 December 2013

	\$	\$	
Net profit		157 900	
Add : Interest on drawings – Abby ($\$18\,000 \times 10\% \times 10/12$)	1 500		½
– Bobby ($\$12\,000 \times 10\% \times 4/12$)	400	1 900	½
		<u>159 800</u>	
Less : Salary - Abby		60 000	1
Interest on capital – Abby ($\$150\,000 \times 8\%$)	12 000		½
– Bobby ($\$300\,000 \times 8\%$)	24 000	36 000	½
		<u>96 000</u>	
		63 800	
Share of profit :			
Abby (2/5)	25 520		½
Bobby (3/5)	38 280	63 800	½

(4)

(c)

Current

	Abby	Bobby		Abby	Bobby	
	\$	\$		\$	\$	
½ Balance b/d	43 000	—	Balance b/d	—	27 000	½
1 Drawings -	18 000	12 000	Share of profit	25 520	38 280	½
½ Interest on drawings	1 500	400	Interest on capital	12 000	24 000	½
1 Balance c/d	15 020	76 880	Salary – Abby	40 000	—	½
			($\$60\,000 - \$20\,000$)			
	<u>77 520</u>	<u>89 280</u>		<u>77 520</u>	<u>89 280</u>	

(5)

11 marks

QUESTION 6

Marks

(a)		Peter		
		Income statement for the year ended 31 December 2013		½
		\$	\$	
Sales [$(\$90\,000 + \$80\,000) \div 2 \times (12 \div 2)$]			510 000	1
Less: <u>Cost of goods sold</u>				
Opening inventory	75 000			½
Purchases [$(\$18\,000 + \$32\,000) \div 2 \times 9$]	225 000			1
	<u>300 000</u>			
Less: Inventory loss (<i>balancing figure</i>)	31 000			1
Closing inventory	<u>65 000</u>		204 000	½
Gross profit $(\$510\,000 \times 60\%)$			<u>306 000</u>	1
Less: <u>Expenses</u>				
Advertising expenses	8 000			½
Rental expenses	37 200			½
Salaries	144 000			½
Inventory loss	31 000			½
Depreciation expenses $(\$180\,000 \times 0.8 \times 20\%)$	<u>28 800</u>		249 000	1
Net profit			<u><u>57 000</u></u>	½
				(9)

- (b) Limitations: Max. 2
- Accounting ratios are calculated based on historical cost and hence may not fairly reflect current performance.
 - Accounting ratios are calculated based on past financial information. Past performance of a company does not necessarily indicate its future performance.
 - Accounting ratios are affected by accounting estimates.
 - Differences in accounting policies will hinder inter-company comparisons.
 - Accounting ratios can only identify the symptoms, but not the cause. They are not able to provide any suggestions or advice to solve the existing or future problems.
 - Non-monetary but significant items, such as the quality of the products, leadership of the management and the business environment, are ignored.
- (1 mark for each relevant limitation, max. 2 marks)

11 marks

QUESTION 7

Marks

- (a) Production overheads absorbed:
 $\$7.0 \times 180\,000 = \$1\,260\,000$
 Over-absorbed:
 $\$1\,260\,000 - \$1\,100\,000 = \$160\,000$
- (b) Since the actual total overheads and the actual number of base units are not known until the end of the financial period, the actual OAR cannot be calculated until then. The predetermined OAR can be calculated prior to the accounting period using estimated figures of overheads and absorption base units, and then used for decision-making (e.g. pricing) and cost control purposes during the year.
- (c)
- | <u>Production overheads</u> | <u>Department A</u> | <u>Department B</u> | <u>Total</u> |
|--|---------------------|---------------------|----------------------|
| | \$ | \$ | \$ |
| Materials (70% indirect materials) | 210 000 | 70 000 | 280 000 |
| Labour (20% indirect labour) | 164 000 | 106 000 | 270 000 |
| Factory depreciation | 339 000 | 66 000 | 405 000 |
| Other indirect expenses | 126 000 | 24 000 | 150 000 |
| | <u>839 000</u> | <u>266 000</u> | <u>1 105 000</u> |
| Direct labour hours (DLH) | 100 000 hours | 70 000 hours | 170 000 hours |
| Plant-wide production overhead absorption rate | | | <u>\$6.5 per DLH</u> |
- (d) Job #103 = $(1000 + 3000) \times \$6.5 = \$26\,000$
 Job #104 = $(3300 + 1100) \times \$6.5 = \$28\,600$
- (e) – Based on the data of the two jobs, departmental overhead rates should provide a fairer cost assignment.
- Reason:
- Department A requires about 50% more direct labour hours than Department B but the overheads incurred are more than double of Department B. Jobs spending more time in Department A ought to be assigned more overheads.
- Supporting calculations:
- Department A = $\$839\,000 / 100\,000 = \8.39 per DLH
 Department B = $\$266\,000 / 70\,000 = \3.8 per DLH
 – Job #103 = $1000 \times \$8.39 + 3000 \times \$3.8 = \$19\,790$
 Job #104 = $3300 \times \$8.39 + 1100 \times \$3.8 = \$31\,867$
 – If plant-wide absorption rate is used instead of departmental overhead rates:
 Job #103: overhead will be over-applied = $\$26\,000 - \$19\,790 = \$6210$
 Job #104: overhead will be under-applied = $\$31\,867 - \$28\,600 = \$3267$

14 marks

SECTION C

QUESTION 8

Marks

- (a)
- The materiality principle should be applied. 1
 - Materiality refers to the impact of an item's nature and size on the company's financial operations. The materiality principle states that if an item would not make a difference to the users' decision-making, it is justifiable to write the item off as an expense when it is incurred. 1
 - It is proper to expense the rubbish bin immediately in view of its insignificant value and the savings in time and cost of providing annual depreciation. 1
- (3)

(b)

Windy Company Limited			
Income statement for the year ended 31 December 2013			
	\$	\$	
Sales (\$1 950 000 – \$38 000)		1 912 000	1
Less: Cost of goods sold [\$1 220 000 + \$23 600 + (\$53 240 – \$33 440)]		1 263 400	1
Gross profit		648 600	
Less: <u>Expenses</u>			
Administrative expenses (\$276 000 + \$182 000)	458 000		1
Selling and distribution expenses	168 400		½
Finance cost	24 000	650 400	½
Net loss		(1 800)	(4)

Windy Company Limited			
Statement of financial position as at 31 December 2013			
ASSETS	\$	\$	
Non-current assets			
Equipment, net (\$3 769 000 – \$630 000 – \$182 000)		2 957 000	1
Current assets			
Inventory [\$253 200 – (\$53 240 – \$33 440)]	233 400		1
Trade receivables (\$381 600 – \$38 000)	343 600		1
Cash at bank (\$5 126 400 – 150 000 × 8)	3 926 400	4 503 400	1
TOTAL ASSETS		<u>7 460 400</u>	
EQUITY AND LIABILITIES			
Equity			
Ordinary shares of \$5 each, fully paid (\$1 500 000 + \$3 000 000)		4 500 000	1
Share premium (\$209 500 + \$1 800 000)		2 009 500	1
General reserve		500 000	½
Retained profits (\$566 000 – \$1800 – \$500 000)		64 200	1½
		<u>7 073 700</u>	
Current liabilities			
Trade payables (\$363 100 + \$23 600)		386 700	1
TOTAL EQUITY AND LIABILITIES		<u>7 460 400</u>	(9)

- (c)
- Profitability: Debenture interest is deducted from earnings and hence will result in a smaller net profit. Ordinary dividend is only a profit appropriation item. 2
 - Financial stability / solvency: A larger amount of non-current liabilities will result in higher gearing, causing financial instability. 2
- (4)

20 marks

QUESTION 9

Marks

(a)

Cash at bank						
2013			\$	2013		\$
½	Dec 31	Balance b/d	56 000	Dec 31	Trade payables (i)	5 400
1		Dividend income (ii)	1 250		Trade receivables (iv)	3 260
					Trade receivables (v)	6 750
					Balance c/d	41 840
			<u>57 250</u>			<u>57 250</u>

(5)

(b)

Nice Company				
Bank reconciliation statement as at 31 December 2013				
		\$	\$	
Updated cash at bank balance			41 840	½
Add: Credit transfer wrongly made by bank (iii)		3 500		1
Unpresented cheques (vi)		<u>5 500</u>	<u>9 000</u>	1
			50 840	
Less: Uncredited deposit (vi)			<u>53 100</u>	1
Overdraft as per bank statement			<u>2 260</u>	½

(4)

(c)

Journal				
2013		Dr	Cr	
Dec 31		\$	\$	
(vii)	Selling expenses	16 000		½
	Purchases		16 000	½
	Sales	22 900		½
	Trade receivables		22 900	½
(viii)	Prepaid rental expense (\$20 400 × 3/12)	5 100		½
	Rental expenses		5 100	½
(ix)	Maintenance expenses (\$108 000 + \$72 000 + \$144 000)	324 000		½
	Maintenance fee revenue		13 000	1
	(\$108 000 × 2/36 + \$72 000 × 1/24 + \$144 000 × 1/36)		311 000	½
	Unearned revenue			(5)

- (d) – The realisation principle should be applied. 1
- The principle governs that revenue should be recognised only when the related service has been provided (or when goods are delivered) to customers, and not when the monies are received. Max. 2
- The maintenance fees are received for two or three years' service and Nice Company should recognise the service fee revenue on a time basis over the respective service period.
- Maintenance fees received for service to be provided in the following years should be recorded as a liability / deferred as unearned revenue.
- (1 mark for each relevant point, max. 2 marks)

(3)

QUESTION 9 (Cont'd)

Marks

- (e) Transactions:
- sales on credit
 - other revenue earned but not yet received (e.g. interest income)
 - disposal of assets at a profit but proceeds not yet received
 - cash discounts received from suppliers
- (1½ marks for each relevant transaction, max. 3 marks)

Max. 3

20 marks

END OF PAPER 2A