2015-DSE
BAFS

PAPER 1

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2015

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. A limited partner ________________.

   A. is a nominal partner
   B. is not liable for the debts of a partnership
   C. does not need to invest money into a partnership
   D. does not take part in the management of a partnership

2. Which of the following statements about stakeholders of a company is correct?

   A. Competitors are not stakeholders of a company.
   B. Stakeholders of a company would be affected by the decisions made by the company.
   C. All stakeholders can share the assets of the company upon its liquidation.
   D. A client becomes a company's stakeholder only after he/she has settled his/her outstanding debts to the company.

3. Susan is the supervisor of a group of fashion designers in a garment firm. She only gives broad directions to the designers, allowing them to complete the assigned tasks in their own ways.

   Susan is adopting the __________ style of leadership.

   A. autocratic
   B. centralised
   C. laissez faire
   D. participative

4. In October 2014, a firm had the following purchases and returns:

   Oct 2 Purchased goods on credit from Mr Yu for $2500
   9 Purchased goods in cash for $2000
   17 Returned goods to Mr Yu for $300
   26 Purchased goods on credit from Miss Lui for $3200 with a cash discount of 10% if payment is made within 30 days

   Based on the above information, what should be the total amount of purchases recorded for the month of October 2014 in the Purchases Journal?

   A. $5380
   B. $5700
   C. $7400
   D. $7700

5. In 2011, the HKSAR Government issued a 3-year iBond. It is a ____(I)____ market instrument and was issued in the ____(II)____ market.

	(I)	(II)
A.	money	primary
B.	money	secondary
C.	capital	primary
D.	capital	secondary

6. Which of the following show the importance of management?

(1) enhance the efficient use of resources of the business
(2) help staff achieve the goal of the business effectively
(3) prevent the business from being affected by external factors

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

7. What is/are the main purpose(s) of preparing a trial balance?

(1) record the daily transactions of the business
(2) reflect the financial performance of the business
(3) check the arithmetical accuracy of bookkeeping entries

A. (1) only
B. (3) only
C. (1) and (2) only
D. (2) and (3) only

8. Mr Cheung plans to buy a residential property. Which of the following types of credit arrangement is most appropriate for him?

A. credit card
B. personal loan
C. mortgage loan
D. bank overdraft

9. In which of the following area(s) can mobile phone applications that deliver real-time stock data help enhance the quality of information?

(1) accuracy
(2) timeliness
(3) understandability

A. (1) only
B. (2) only
C. (1) and (3) only
D. (1), (2) and (3)

10. Which of the following is not a nominal account?

A. salaries account
B. purchases account
C. returns inwards account
D. cash at bank account

11. Which of the following is/are the characteristic(s) of small and medium enterprises (SMEs) in Hong Kong?

(1) They are responsive to market changes.
(2) They have a tall-type organisational structure.
(3) Their tax rate is different from that of large companies.

A. (1) only
B. (2) only
C. (1) and (2) only
D. (2) and (3) only

12. Which of the following organisations is responsible for managing the Exchange Fund of Hong Kong?

A. Mandatory Provident Fund Schemes Authority
B. Hong Kong Exchanges and Clearing Limited
C. Securities and Futures Commission
D. Hong Kong Monetary Authority

13. Which of the following tasks are performed by the finance department of a company?

(1) make investment decisions for the company
(2) formulate debt collection policy of the company
(3) set up staff's compensation system of the company

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

14. A firm sells goods to a customer on credit. Which of the following are the effects of this transaction on the statement of financial position?

	Total current assets	Total current liabilities
A.	decrease	increase
B.	decrease	decrease
C.	increase	unchanged
D.	unchanged	unchanged

15. Investors will use the accounting information provided in financial statements to evaluate ___________ .

(1) whether it is worth investing in the business
(2) whether the organisational structure of the business is appropriate
(3) whether the business has adequate capital to carry out its projects

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 are the characteristics of the Hong Kong economy?

(1) simple taxation
(2) reliance on external trade
(3) concentration on secondary industry

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

17. On 1 January 2014, Mr Wong deposited $500 000 into a saving plan which offers a return of 5% per year, compounded annually. The total amount of money Mr Wong will get from the plan after 3 years is ________ (to the nearest dollar).

A. $431 919
B. $525 000
C. $551 250
D. $578 813

18. Which of the following descriptions of cash discounts offered to customers are correct?

(1) They are expenses.
(2) They must be recorded in the books.
(3) They are used to encourage customers to purchase in cash.

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

19. Which of the following are the advantages to a company of using email for internal communication?

(1) Any feedback can be received instantly.
(2) Both textual and audio-visual messages can be sent.
(3) A message can be sent to many recipients at the same time.

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

20. Under which of the following circumstances can a scheme member withdraw the accrued benefits from the Mandatory Provident Fund scheme?

(1) early retirement at the age 60
(2) unemployed for more than 6 months
(3) permanent departure from Hong Kong

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

21. An operations manager of a company is responsible for __________ .

(1) assigning jobs to the factory workers
(2) projecting the demand for the products
(3) setting up the assembly lines for the plant

A. (1) only
B. (2) only
C. (1) and (3) only
D. (1), (2) and (3)

22. Which of the following statements regarding the World Trade Organisation (WTO) are correct?

(1) WTO settles trade disputes among members.
(2) Decisions made by WTO are binding on all members.
(3) WTO helps developing countries develop the infrastructure needed to expand their trade.

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

23. On 1 January 2014, Mary started her business by depositing her own cash $300 000 into the firm's bank account and introducing her motor van costing $80 000 into the firm. In addition, the firm borrowed $40 000 from Mary's friends to buy goods for the business. Total revenues and total expenditures of the firm for the year ended 31 December 2014 amounted to $120 000 and $45 000 respectively.

What is the amount of Mary's capital as at 31 December 2014?

A. $305 000
B. $335 000
C. $455 000
D. $485 000

24. David joined a manufacturing company as an engineer some years ago and will be promoted to the post of the General Manager soon. After his promotion, ___(I)___ skills will become most important to his work while ___(II)___ skills will become least important.

	(I)	(II)
A.	technical	interpersonal
B.	interpersonal	conceptual
C.	conceptual	interpersonal
D.	conceptual	technical

25. Which of the following double entries are correct?

	Transactions	**Account to be debited**	**Account to be credited**
(1)	Purchased a file cabinet for office use in cash	Purchases	Cash
(2)	The owner introduced cash into the business	Cash	Capital
(3)	A debtor paid his debts by cheque	Cash at bank	Accounts receivables

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

26. Which of the following are the impacts of globalisation on business?

(1) reduce information cost
(2) reduce competition among businesses
(3) facilitate transfer of technology between different countries

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

27. Which of the following is/are the characteristic(s) of a public corporation?

(1) Its losses are borne by taxpayers.
(2) It is operated on a commercial basis.
(3) The government is involved in its daily operations.

A. (1) only
B. (2) only
C. (1) and (3) only
D. (2) and (3) only

28. Which of the following are the responsibilities of an individual investor?

(1) understand the terms before signing a contract
(2) check account statements from time to time
(3) attend the Annual General Meetings of the company invested in

A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

Based on the following information, answer Questions 29 and 30.

Nelson established his firm on 1 January 2014. Its sales and purchases for the year ended 31 December 2014 were $540 000 and $230 000 respectively. The gross profit ratio for 2014 was 60% while the net profit margin was 35%.

29. What is the amount of inventory of the firm as at 31 December 2014?

A. $10 000
B. $12 000
C. $14 000
D. $18 000

30. What is the amount of expenses of the firm for 2014?

A. $135 000
B. $189 000
C. $216 000
D. $324 000

END OF SECTION A

SECTION B (30 marks)

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

1. Annie operates a small guest house on Lamma Island for foreign travellers. She sets up an Internet booking system for the guest house, with the following goal:

   "To increase the number of Internet bookings substantially in the near future"

   (a) Briefly explain two characteristics of a SMART goal that are missing from the above goal. (4 marks)

   (b) Explain one political factor and one legal factor that may affect Annie's business. (4 marks)

2. (a) Explain the consistency principle in accounting. (2 marks)

   (b) A firm bought a motor van for business use and paid $175 000 from its bank account. The list price of the motor van was $200 000 and a discount of $25 000 was given by the vendor.

   State the amount to be recorded for the motor van in the books of the firm. Explain your answer with a relevant accounting principle or concept. (3 marks)

3. Calvin is a retail investor. He invested $200 000 to buy shares listed on the Hong Kong Stock Exchange through a licensed stockbroker in Hong Kong. As the broker defaulted, Calvin was not able to get back his investment. He therefore applied to the Investor Compensation Fund to claim the loss.

   (a) Explain two ways in which investing in shares might benefit an investor. (4 marks)

   (b) (i) In the above case, Calvin has fulfilled the conditions to receive compensation from the Investor Compensation Fund. Give any two of them. (2 marks)

   (ii) What is the maximum amount of compensation that Calvin can get from the Investor Compensation Fund? (1 mark)

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

4. Peter is the sole owner of a garment firm. The following balances as at 31 December 2014 were obtained from the firm:

	$
Bank loan (repayable in September 2015)	430 000
Capital, 1 January 2014	?
Cash at bank	398 000
Fixed deposit (6-month)	180 000
Inventory	210 000
Motor vehicles	986 000
Net profit for the year	82 000
Trade payables	383 000
Trade receivables	320 000

(a) Prepare a statement of financial position for Peter's business as at 31 December 2014. (5 marks)

Peter plans to expand the business and set up three departments to take care of the garment business in Hong Kong, Macau and Shenzhen respectively. A business consultant reminds him that other forms of departmentalisation may also be considered.

(b) State the form of departmentalisation planned by Peter. (1 mark)

(c) Briefly describe two other forms of departmentalisation that could be adopted by Peter's business. (4 marks)

5. John commenced a trading firm on 1 January 2014 as the sole owner. The financial information of the firm for the year ended 31 December 2014 is as follows:

	$
Carriage inwards	25 500
Carriage outwards	23 600
Inventory, 31 December 2014	88 000
Purchases	227 500
Rental expenses	128 000
Returns outwards	9 230
Sales	492 000
Salaries	120 000

(a) Prepare an income statement for John's business for the year ended 31 December 2014. (5 marks)

To raise money for expansion, John wants to change the form of business ownership of the firm. He plans to invite five people to invest in and join the business as owners. After expansion, all owners shall have limited liability for the firm. Their ownership cannot be freely transferred.

(b) According to the above information, which form of business ownership will John adopt for the expansion? (1 mark)

(c) Apart from the restriction in ownership transfer, suggest two other disadvantages for the form of business ownership mentioned in (b), as compared to a sole proprietorship. (4 marks)

END OF PAPER

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PAPER 2A

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2015

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 following information was extracted from the cash book of Jaden Company for the month ended 31 December 2014:

Cash at bank

2014		$	2014		Cheque No.	$
Dec 1	Balance b/d	21 000	Dec 8	Kenneth Ltd	707891	5 200
5	Candy Ltd	24 000	10	Electricity	707892	1 900
12	Man Ltd	19 300	15	Tony	707893	12 200
20	Cherry	9 310	21	Yip's Ltd	120485	4 000
31	Nam Ltd	8 620	31	Balance c/d		58 930
		82 230				82 230

Jaden Company received the following bank statement for the month of December 2014:

Date		**Description**	**Withdrawal**	**Deposit**	**Balance**
2014			$	$	$
Dec	1	Balance b/d			21 000
	5	Cheque deposit		24 000	45 000
	12	Cheque deposit		19 300	64 300
	14	Direct debit - water	3 100		61 200
	16	Refer to drawer	19 300		41 900
	17	Cheque 707892	1 900		40 000
	18	Sunny Ltd		12 300	52 300
	20	Cheque deposit		9 310	61 610
	21	Cheque deposit		4 000	65 610
	22	Cheque 707891	5 200		60 410
	31	Bank charges	30		60 380

Additional information:

(i) On 18 December 2014, a customer, Sunny Ltd, made a credit transfer to the company's bank account without notifying the company.

(ii) On 21 December 2014, Cheque 120485 was received from a customer, Yip's Ltd, but it was recorded as a payment in the cash at bank account.

REQUIRED:

(a) Update the cash at bank account of Jaden Company. (5 marks)

(b) Prepare a bank reconciliation statement as at 31 December 2014, commencing with the updated cash at bank balance. (3 marks)

(Total: 8 marks)

2. The following information was extracted from the books of Tommy Limited for the month of March 2015:

	$
Allowances from suppliers for damaged goods	990
Bad debts written off	1 410
Contra between sales ledger and purchases ledger	4 500
Purchases ledger control account balance, 1 March 2015	8 900
Cash purchases	13 200
Cash sales	22 100
Credit purchases	35 400
Credit sales	89 000
Discounts allowed	1 230
Discounts received	670
Interest charged on overdue customers	190
Payments to suppliers by cheques	19 800
Returns inwards	890
Returns outwards	560

REQUIRED:

(a) Write up the purchases ledger control account for the month ended 31 March 2015. (4 marks)

(b) State one advantage of maintaining control accounts. (1 mark)

(Total: 5 marks)

3. Ivan Company had the following cost information for 2014:

	$
Beginning inventories:	
Direct materials	30 000
Work in progress	18 000
Finished goods	48 000
Carriage inwards on direct materials	20 000
Direct materials purchases	140 000
Direct labour	380 000
Ending inventories:	
Direct materials	55 000
Work in progress	33 000
Finished goods	38 000
Production overheads	330 000

REQUIRED:

Calculate the following items for 2014:

(a) Cost of direct materials consumed (1 mark)

(b) Prime cost (1 mark)

(c) Cost of goods manufactured (1 mark)

(d) Cost of goods sold (1 mark)

(Total: 4 marks)

4. Peter Company plans to sell 3000 pairs of shoes at $350 per pair. Relevant financial information is given below:

	$
Fixed production overheads	150 000
Fixed selling and administrative expenses	228 000
Direct materials per pair of shoes	45
Direct labour per pair of shoes	55
Variable production overheads per pair of shoes	18
Sales commission per pair of shoes	22

REQUIRED:

(a) Calculate the contribution margin for each pair of shoes. (2 marks)

(b) How much sales revenue does Peter Company have to earn in order to achieve a target profit of $168 000? (2 marks)

(c) If the price is set at $365 per pair, it is estimated that the sales quantity will drop from 3000 pairs to 2700 pairs. Should Peter Company raise the price? Support your answer with calculations. (3 marks)

(Total: 7 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

5. Ron, Sam and Tim were in partnership sharing profits and losses in the ratio of 1:2:3 respectively. An extract of the account balances as at 31 December 2014 is given below:

	$
Capital accounts:	
- Ron	112 300
- Sam	30 000
- Tim	190 700
Office equipment, net	465 000
Inventory	83 000
Trade receivables	62 000
Cash at bank	4 000
Loan from Tim	80 000
Trade payables	201 000

On 1 January 2015, Sam was declared bankrupt and the partnership was dissolved. The relevant information is as follows:

(i) Ron took over the office equipment at 50% of its net book value.

(ii) Tim took over all the inventory to settle 60% of his loan to the partnership. The partnership paid the outstanding loan balance by cheque.

(iii) Ron was responsible for collecting all the trade receivables for the partnership. Finally he collected $60 000 and deposited the amount into the partnership's cash at bank account. The partnership agreed to pay him a handling fee of 2% on the amount collected.

(iv) The partnership received a 2.4% discount on the trade payables, which were settled by Tim on behalf of the partnership.

(v) Realisation expenses of $3800 were paid by cheque.

(vi) Sam was unable to settle his account and it was agreed that his deficiency was to be borne by the remaining partners according to their profit and loss sharing ratio.

REQUIRED:

Prepare the following accounts:

(a) realisation account (5 marks)

(b) the partners' capital accounts in columnar form (5 marks)

(Total: 10 marks)

6. The trial balance as at 31 December 2014 for Elsa Company failed to agree and a suspense account was opened to record the difference. The following errors were subsequently discovered:

(i) Credit sales for $500 had been overlooked by the bookkeeper and no record was made in the books.

(ii) Payment of $3000 for rates was debited to the rental deposit account.

(iii) An electricity bill for December 2014 amounting to $2500 was recorded as $250 in the books. The bill would be settled in January 2015.

(iv) A cheque for $1200 received from a customer, Windy Ltd, had been entered in the cash book only.

(v) Discounts received of $540 had been credited to the purchases account as $450.

(vi) On 31 December 2014, Elsa, the sole owner of the company, took over one of the company's motor vans for her personal use. She thought that she was just using her own asset and therefore she did not make any accounting record for this. The motor van cost $80 000 and had a net book value of $50 000 on 31 December 2014.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (7 marks)

(b) Identify the type of accounting error made in each of items (i), (ii) and (iii) above. (3 marks)

(c) Identify and explain the accounting principle or concept that has been violated in (vi) above. (3 marks)

(Total: 13 marks)

7. Susan Café operates its own bakery and produces cookies and cupcakes. Information on the two products is as follows:

	Cookies	Cupcakes
Selling price per box	$290	$390
Direct material cost per box	$20	$120
Direct labour hour per box	$\frac{1}{3}$ hour	$\frac{1}{2}$ hour
Labour wage rate per hour	$90	$90
Variable production overheads per box	$15	$15

The bakery produces and sells 2400 boxes of cookies and 1800 boxes of cupcakes per year. Production overheads are allocated on the basis of direct labour hours. Details of annual fixed production overheads for the bakery are as follows:

	$
Supervisor's salary	286 000
Depreciation on equipment	80 000
Rent	144 000

REQUIRED:

(a) Calculate the following for the bakery:

(i) the predetermined fixed production overhead absorption rate (2 marks)

(ii) the total production cost per box of cupcakes (2 marks)

A local supplier offered to supply Susan Café with all the cookies and cupcakes it needed. The prices were $170 per box for cookies and $270 per box for cupcakes. The offer was conditional that Susan Café must buy both products. In other words, the supplier would not supply just one type of product for the price indicated. If the offer was accepted, all the equipment would be scrapped and the bakery would be closed.

REQUIRED:

(b) Explain, with supporting calculations, whether Susan Café should continue to produce its own cookies and cupcakes, or purchase them from the local supplier. (4 marks)

Finally, Susan Café decided to produce its own products, for better quality control. The bakery is operating at only 85% of its full capacity of 2000 direct labour hours per year. It is therefore decided that one more product, shortbread, will be produced to fully utilise the capacity of the bakery.

The estimated annual demand for shortbread is 3900 boxes and the selling price is $370 per box. Additional information on the production of shortbread is provided below:

Direct material cost per box	$180
Direct labour hour per box	$\frac{1}{6}$ hour
Labour wage rate per hour	$90
Variable production overheads per box	$15

REQUIRED:

(c) (i) Calculate the contribution per direct labour hour for each of the three products. (2 marks)

(ii) To maximise the total contributions of the bakery at its full capacity, calculate the annual production quantity for each of the three products. (3 marks)

(Total: 13 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

8. Before the preparation of the income statement, Nancy Company Limited has drafted the trial balance as at 31 December 2014 as follows:

	Dr	Cr
	$	$
Purchases and sales	890 000	1 380 000
Ordinary shares of $5 each, fully paid		1 200 000
Accumulated depreciation – office equipment, 1 January 2014		340 000
Trade receivables and trade payables	321 900	247 800
Retained profits, 1 January 2014		210 000
6% debentures		150 000
Cash at bank		42 000
Administrative expenses	345 000	
Inventory, 1 January 2014	156 000	
Office equipment	1 570 000	
Selling and distribution expenses	286 900	
	3 569 800	3 569 800

Additional information:

(i) It is the company's policy to depreciate its non-current assets on a straight-line basis at an annual rate of 10%. Depreciation expenses and loss on disposal are classified as administrative expenses.

(ii) On 1 October 2014, Nancy Company Limited traded in a piece of used office equipment with a cost of $100 000 for a new model. The trade-in value was agreed at $22 000. The old office equipment had an accumulated depreciation of $52 500 on 1 January 2014. No accounting record had been made for the above arrangement. In respect of this trade-in, the company was required to pay $140 000 for the new office equipment, $5000 for its delivery, $1000 for the insurance during its delivery and $3000 to train staff to operate the new office equipment. All these expenditures had been treated as administrative expenses for 2014.

(iii) On 1 July 2014, $150 000 6% debentures were issued, interest being payable half-yearly on 1 January and 1 July.

(iv) In December 2014, goods invoiced at $30 000 were sent to a customer on a sale-or-return basis. These had been recorded as credit sales for the year. As at 31 December 2014, 75% of these goods were accepted by the customer. The remaining 25% had been included in the closing inventory at cost.

(v) An invoice for selling expenses of $2000 was received but not yet recorded in the books.

(vi) Inventory as at 31 December 2014 had a cost of $290 000. 20% of the inventory was slightly damaged and had a net realisable value of $49 980.

(vii) On 31 December 2014, the board of directors resolved to transfer $100 000 to general reserve.

REQUIRED:

(a) Prepare a statement to calculate the cost of the new office equipment in (ii) above. (3 marks)

(b) Prepare for Nancy Company Limited the income statement for the year ended 31 December 2014 and the statement of financial position as at that date. (14 marks)

(c) Explain, with a relevant accounting principle or concept, the accounting treatment of (vi) above. (3 marks)

(Total: 20 marks)

9. Pearl Ltd had the following financial information related to the year 2014:

As at 1 January 2014	$
Shareholders' equity	300 000
Retained profits	40 000
Total assets	343 000
Non-current assets	101 000
Inventory	65 000
Current liabilities (Note (i))	43 000

For the year ended 31 December 2014	$
Cash sales	60 000
Credit sales	390 000
Cash purchases	110 000
Credit purchases	132 000
Increase in current assets (not including inventory)	27 000
Increase in trade payables	3 000

The retained profits as at 31 December 2014 amounted to $128 000 and no profit appropriations were made during the year.

(i) Pearl Ltd had trade payables only as its current liabilities.

(ii) An electricity bill for December 2014 amounting to $2500 was received on 16 January 2015. As the payment would be made in February 2015, no accounting record had been made by the bookkeeper.

(iii) A physical inventory count on 4 January 2015 showed that the value of inventory on that date was $31 700, which had been used for the computation of profits for the year 2014. During the period 1 January to 4 January 2015, there were credit purchases with a total list price of $3000. A trade discount of 10% had been given by the supplier on these purchases and a 2% cash discount would be received if the settlement was made in two weeks. Goods costing $5000 were sold during these 4 days.

REQUIRED:

(a) Identify the relevant accounting principle or concept violated in (ii) above. Briefly explain. (3 marks)

(b) Calculate the following amounts as at 31 December 2014:

(i) inventory (2 marks)

(ii) current assets (3 marks)

(c) Calculate (to two decimal places) the following ratios for the year 2014:

(i) net profit ratio (2 marks)

(ii) quick ratio (2 marks)

(iii) trade payables turnover (in times) (2 marks)

(iv) inventory turnover (in times) (2 marks)

Lily Ltd and Jasmine Ltd are two listed companies in the same industry and have a similar scale of production. They have a similar share price. Their financial ratios for the year 2014 are shown below:

	Lily Ltd	Jasmine Ltd
Return on capital employed	31%	15%
Gearing ratio	25%	65%
Earnings per share	$18	$15.2

REQUIRED:

(d) Pearl Ltd is planning to invest a designated amount of cash, for the same percentage of shareholding, in one of the above companies. Advise and explain which company Pearl Ltd should invest in based on the three ratios above. (4 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.	D (37%)	16.	A (92%)
2.	B (80%)	17.	D (95%)
3.	C (78%)	18.	A (54%)
4.	B (28%)	19.	D (39%)
5.	C (46%)	20.	B (67%)
6.	A (63%)	21.	C (39%)
7.	B (63%)	22.	D (25%)
8.	C (70%)	23.	C (63%)
9.	B (49%)	24.	D (77%)
10.	D (64%)	25.	C (68%)
11.	A (84%)	26.	B (89%)
12.	D (61%)	27.	B (39%)
13.	A (59%)	28.	A (59%)
14.	C (54%)	29.	C (81%)
15.	B (85%)	30.	A (71%)

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

SECTION B

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'.

3. 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) Characteristics: — Max. 4

- measurable: the goal does not specify a quantified amount of increase
- time-bound: the goal does not specify the targeted timeframe
- specific: the number of Internet bookings may refer to the log-in times of customers, successful bookings or the bookings that lead to actual rental
- realistic/attainable: the goal may not be achievable, e.g. due to the shrinking tourism business around the world

(2 marks for each relevant characteristic, max. 4 marks)

(b) Political factor: — Max. 2

- political stability of Hong Kong / travellers' home countries
- the relationship between Hong Kong/China and the travellers' home countries

(2 marks for each relevant political factor, max. 2 marks)

Legal factor: — Max. 2

- regulations related to guest house/hotel licensing
- regulations related to visa requirement

(2 marks for each relevant legal factor, max. 2 marks)

8 marks

QUESTION 2 — **Marks**

(a) The consistency principle: — 2

The accounting treatment of similar items should be the same in an accounting period and from one period to another

(b)

- $175 000 — 1
- Historical cost concept — 1
- The motor van should be recorded at the actual cost to the business, that is, the net price after deducting discount. — 1

5 marks

QUESTION 3 — **Marks**

(a) Benefits: — Max. 4

- capital gain through the price appreciation of the shares
- investment income through share dividend
- voting rights that can affect company management

(2 marks for each relevant benefit, max. 4 marks)

(b)(i) Conditions fulfilled: — Max. 2

- Calvin is a retail investor
- Calvin suffers pecuniary losses as a result of the default of a licensed stockbroker
- The shares are exchange-traded products in Hong Kong

(1 mark for each relevant condition, max. 2 marks)

(ii) $150 000 — 1

7 marks

PART 2

QUESTION 4 **Marks**

(a)

			Marks
Peter Statement of financial position as at 31 December 2014			½
	$	$	
Non-current assets			
Motor vehicles		986 000	½
Current assets			
Inventory	210 000		½
Fixed deposit (6-month)	180 000		½
Trade receivables	320 000		½
Cash at bank	398 000	1 108 000	½
TOTAL ASSETS		2 094 000	
Capital, 1 January 2014 *(balancing figure)*		1 199 000	½
Add: Net profit		82 000	½
		1 281 000	
Current liabilities			
Trade payables	383 000		½
Bank loan (repayable in September 2015)	430 000	813 000	½
TOTAL CAPITAL AND LIABILITIES		2 094 000	
			(5)

(b) Departmentalisation by location 1

(c) Other forms: Max. 4

- By product: e.g. set up different departments to take care of the garment business for men's, women's and kids' wears respectively
- By function: e.g. set up different departments to take care of production, marketing, human resource and finance respectively

(2 marks for each relevant form of departmentalisation, max. 4 marks)

10 marks

QUESTION 5 **Marks**

(a)

John
Income statement for the year ended 31 December 2014 ½

	$	$	
Sales		492 000	½
Less : Cost of goods sold			
Purchases	227 500		½
Add: Carriage inwards	25 500		½
	253 000		
Less : Returns outwards	9 230		½
	243 770		
Less: Closing inventory	88 000	155 770	½
Gross profit		336 230	½
Less: Expenses			
Carriage outwards	23 600		½
Rental expenses	128 000		½
Salaries	120 000	271 600	½
Net profit		64 630	
			(5)

(b) Private limited company 1

(c) Other disadvantages: Max. 4

- profit tax rate is higher resulting in lower distributable profits
- more requirements in setup procedures/ higher setup cost
- separation of ownership and management and thus owners may not be able to control daily operations

(2 marks for each relevant disadvantage, 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**

(a) Cash at bank

Marks	2014		$	2014		$	Marks
½	Dec 31	Balance b/d	58 930	Dec 31	Water: direct debit	3 100	1
1		Sunny Ltd: credit transfer	12 300		Man Ltd: dishonoured cheque	19 300	1
1		Yip's Ltd	8 000		Bank charges	30	½
					Balance c/d	56 800	
			79 230			79 230	
							(5)

(b) Bank reconciliation statement as at 31 December 2014

	$	Marks
Updated balance as per cash at bank	56 800	½
Add: Unpresented cheque: 707893	12 200	1
	69 000	
Less: Uncredited deposit - Nam Ltd	8 620	1
Balance as per bank statement	60 380	½
		(3)

8 marks

QUESTION 2

Marks

(a)

Purchases ledger control

			$			$	
	2015		$	2015		$	
½	Mar 31	Allowance from suppliers	990	Mar 31	Balance b/d	8 900	½
½		Sales ledger control	4 500		Purchases	35 400	½
½		Discounts received	670				
½		Bank	19 800				
½		Returns outwards	560				
½		Balance c/d	17 780				
			44 300			44 300	

(4)

(b) Advantages: Max. 1

- Avoid delay: total figures for trade receivables and trade payables can be produced quickly
- Better internal control: reduce the possibility of fraud because control accounts are prepared by another bookkeeper
- Improve accuracy: provide a check on the correctness of the postings in the ledgers

(1 mark for each relevant advantage, max. 1 mark)

5 marks

QUESTION 3

Marks

(a) Cost of direct materials consumed:
$30 000 + $140 000 + $20 000 – $55 000 = $135 000 — 1

(b) Prime cost:
$135 000 + $380 000 = $515 000 — 1

(c) Cost of goods manufactured:
$515 000 + $330 000 + $18 000 – $33 000 = $830 000 — 1

(d) Cost of goods sold:
$48 000 + $830 000 – $38 000 = $840 000 — 1

4 marks

QUESTION 4

Marks

(a) Contribution margin per pair of shoes: 2

	$	$	
Selling price		350	(½)
Direct materials	45		
Direct labour	55		
Variable production overheads	18		
Sales commission	22	140	(1)
		210	(½)

(b) Sales revenue = ($150 000 + $228 000 + $168 000) / $210 × $350 = $910 000 — 2

(c) Total contribution: original selling price of $350 per pair of shoes = $210 × 3000 = $630 000 — 1
Total contribution: new selling price of $365 per pair of shoes = $225 × 2700 = $607 500 — 1
Peter Company should not raise the price because total contribution will decrease by $22 500 — 1

7 marks

SECTION B

QUESTION 5 **Marks**

(a)

Realisation

Marks		$			$	Marks
½	Office equipment	465 000	Ron's capital: office equipment		232 500	½
½	Inventory	83 000	Loan from Tim: inventory		48 000	½
			($80 000 × 60%)			
½	Trade receivables	62 000	Cash at bank: trade receivables		60 000	½
½	Ron's capital: handling fee	1 200	Trade payables: discounts received		4 824	½
½	Cash at bank: realisation expenses	3 800	Loss on realisation:			
			Ron (1/6)	44 946		
			Sam (2/6)	89 892		
			Tim (3/6)	134 838	269 676	½
		615 000			615 000	

(5)

(b)

Capital

Marks		Ron $	Sam $	Tim $		Ron $	Sam $	Tim $	Marks
½	Realisation: office equipment	232 500			Balance b/d	112 300	30 000	190 700	½
½	Loss on realisation	44 946	89 892	134 838	Realisation: handling fee	1 200			½
	Sam's capital: share of				Trade payables			196 176	½
1	deficiency (1:3)	14 973		44 919	Ron and Tim's capital:				
½	Cash at bank			207 119	share of deficiency		59 892		½
					Cash at bank	178 919			½
		292 419	89 892	386 876		292 419	89 892	386 876	

(5)

10 marks

QUESTION 6 **Marks**

(a) Journal

		Dr	Cr	Marks
2014				
December 31		\$	\$	
(i)	Trade receivables	500		½
	Sales		500	½
(ii)	Rates	3000		½
	Rental deposit		3000	½
(iii)	Electricity	2250		½
	Accrued electricity		2250	½
(iv)	Suspense	1200		½
	Trade receivables		1200	½
(v)	Purchases	450		½
	Suspense	90		½
	Discounts received		540	½
(vi)	Accumulated depreciation – motor van	30 000		½
	Drawings	50 000		½
	Motor van		80 000	½
				(7)

(b) (i) error of (complete) omission 1
(ii) error of principle 1
(iii) error of original entry 1
(3)

(c)
- The business entity concept was violated. 1
- In accounting, a firm and its owner(s) are separate entities. Therefore, transactions between the firm and the owner(s) should also be recorded. 1
- The motor van had been withdrawn by Elsa and was no longer the asset of the company. The withdrawal should be treated as drawings and proper entries should be made in the books. 1

(3)

13 marks

QUESTION 7

Marks

(a)(i) Fixed production overheads = \$286 000 + \$80 000 + \$144 000
= \$510 000
Direct labour hours = (2400 x ⅓) + (1800 x ½) = 1700 direct labour hours
Predetermined fixed production overhead absorption rate = \$510 000 / 1700 direct labour hours
= \$300 per direct labour hour (2)

(ii)

Cupcakes	\$		
Direct material	120		
Direct labour	45	(\$90 × ½)	
Variable production overheads	15		
Fixed production overheads	150	(\$300 × ½)	
Total production cost per box of cupcakes	330		(2)

(b)

Total manufacturing cost	\$		
Direct material	264 000	(\$20 × 2400 + \$120 × 1800)	½
Direct labour	153 000	(\$90× ⅓ ×2400+ \$90×½×1800)	½
Variable production overheads	63 000	[\$15 × (2400 + 1800)]	½
Fixed production overheads (*exclude depreciation)*	430 000	(\$286 000 + \$144 000)	1
	910 000		

Total purchase cost = (\$170 × 2400) + (\$270 × 1800) = \$894 000 ½
Net savings by purchasing: \$16 000 ½

Susan Café should buy cookies and cupcakes from the local supplier. ½
(4)

(c)
(i)

	Cookies	Cupcakes	Shortbread	
	\$	\$	\$	
Selling price per box	290	390	370	
Direct material cost per box	(20)	(120)	(180)	
Direct labour cost per box	(30)	(45)	(15)	
Variable production overheads per box	(15)	(15)	(15)	
Contribution per box	225	210	160	
			(½)	
Direct labour required per box	⅓ hour	½ hour	⅙ hour	
Contribution per direct labour hour	**\$675**	**\$420**	**\$960**	
	(½)	(½)	(½)	2
Production Priority	2nd	3rd	1st	

(ii)

	Direct labour hours required	**Annual production quantity**	
1. Shortbread	650	**3 900**	1
2. Cookies	800	**2 400**	1
3. Cupcakes	550	**1 100**	1
	2 000		(5)
			13 marks

SECTION C

QUESTION 8 — Marks

(a)

Statement showing the calculation of the cost of the new office equipment

	$	Marks
Payment for cost	140 000	½
Trade-in value of the old office equipment	22 000	½
Delivery charge	5 000	½
Insurance fee on transportation	1 000	½
Total cost of the new office equipment	168 000	1
		(3)

(b)

Nancy Company Limited
Income statement for the year ended 31 December 2014

	$	$	Marks
Sales ($1 380 000 – $7500)		1 372 500	½
Less: Cost of goods sold			
Opening inventory	156 000		½
Purchases	890 000		½
	1 046 000		
Less: Closing inventory [$290 000 – ($58 000 – $49 980)]	281 980	764 020	1
Gross profit		608 480	
Less: Expenses			
Administrative expenses *(workings)*	375 700		2½
Selling and distribution expenses ($286 900 + $2000)	288 900		½
Finance cost ($150 000 × 6% × $\frac{6}{12}$)	4 500	669 100	½
Net loss		(60 620)	
			(6)

Workings

Calculation of administrative expenses for the year ended 31 December 2014

	$
As per trial balance	345 000
Depreciation for 2014:	
- Disposed office equipment ($100 000 × 10% × $\frac{9}{12}$)	7 500
- Remaining office equipment [($1 570 000 – $100 000) × 10%]	147 000
- New office equipment ($168 000 × 10% × $\frac{3}{12}$)	4 200
Loss on disposal of office equipment [$100 000 – ($52 500 + 7 500) – $22 000]	18 000
Cost of new office equipment ($140 000 + $5000 + $1000)	(146 000)
	375 700

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

Nancy Company Limited
Statement of financial position as at 31 December 2014

	$	$	Marks
ASSETS			
Non-current assets			
Office equipment ($1 570 000 – $100 000 + $168 000)		1 638 000	1
Less: Accumulated depreciation ($340 000 – $52 500 + $147 000 + $4200)		438 700	1½
		1 199 300	
Current assets			
Inventory	281 980		½
Trade receivables ($321 900 – $7500)	314 400	596 380	½
TOTAL ASSETS		1 795 680	
EQUITY AND LIABILITIES			
Equity			
Ordinary shares of $5 each, fully paid		1 200 000	½
General reserve		100 000	½
Retained profits ($210 000 – $60 620 – $100 000)		49 380	1
		1 349 380	
Non-current liabilities			
6% Debentures		150 000	½
Current liabilities			
Trade payables	247 800		½
Accrued finance cost	4 500		½
Accrued selling expenses	2 000		½
Bank overdraft	42 000	296 300	½
TOTAL EQUITY AND LIABILITIES		1 795 680	
			(8)

(c) – Prudence concept should be applied. 1

– It means that when choosing among accounting alternatives, the best choice is one that is least likely to overstate assets and profits. **Max. 2**

– The company should adopt the lower of cost or net realisable value in the valuation of inventory.

– The loss of the damaged inventory $8020 ($58 000 - $49 980) should be recognised in the income statement for the year ended 31 December 2014.

(1 mark for each relevant point, max. 2 marks) (3)

20 marks

QUESTION 9 **Marks**

(a) – Accrual concept is violated. 1
– Revenues and expenses are recognised and included in the financial statements when they are earned or incurred, not when they are received or paid. 1
– Therefore, the electricity expenses should be recorded in the financial statements of 2014, though it was still unpaid at the year end. 1

(3)

(b) (i) Inventory
= $31 700 – ($3000 × 0.9) + $5000
= $34 000 2

(ii) Current assets
= ($343 000 – $101 000) + $27 000 – ($65 000 – $34 000)
= $238 000 3

(c) (i) Net profit ratio:

$$= \frac{[(\$128\,000 - \$40\,000) + (\$34\,000 - \$31\,700) - \$2500] \times 100\%}{390\,000 + 60\,000}$$

$$= \frac{\$87\,800 \times 100\%}{\$450\,000}$$

= 19.51% 2

(ii) Quick ratio:

$$= \frac{\$238\,000 - \$34\,000}{\$43\,000 + \$3000 + \$2500}$$

$$= \frac{\$204\,000}{\$48\,500}$$

= 4.21:1 2

(iii) Trade payables turnover (times)

$$= \frac{\$132\,000}{(\$43\,000 + \$46\,000)/2}$$

$$= \frac{\$132\,000}{\$44\,500}$$

= 2.97 times 2

(iv) Inventory turnover (times)

$$= \frac{\$65\,000 + (\$110\,000 + \$132\,000) - \$34\,000}{(\$65\,000 + \$34\,000)/2}$$

$$= \frac{\$273\,000}{\$49\,500}$$

= 5.52 times 2

(13)

(d) – Pearl Ltd should invest in Lily Ltd. 1

Lily Ltd is a better investment because it has
– higher return on capital employed: it has higher profitability with more efficient use of its capital to generate profits. 1
– lower gearing ratio: it has lower degree of leverage and hence lower risk and financial burden. 1
– higher earnings per share: it has higher profitability and the amount of profits earned for each outstanding share is higher. 1

(4)

20 marks

END OF PAPER 2A