

## 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.

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

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

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

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

1. Which of the following statements about Asia-Pacific Economic Cooperation is/are correct?
  - (1) It settles trade disputes in the Asia-Pacific region.
  - (2) It promotes sustainable economic growth in the Asia-Pacific region.
  - (3) It encourages cooperation on trade and investment in the Asia-Pacific region through high-level government-to-government dialogues.

A. (1) only  
B. (1) and (2) only  
C. (2) and (3) only  
D. (1), (2) and (3)
2. Assume that no account balance is missing from a trial balance. If the total of the debit balances and the total of the credit balances of the trial balance are not equal, it means that \_\_\_\_\_.
  - (1) one or more ledger balance(s) in the trial balance is/are wrong
  - (2) the statement of financial position will not balance
  - (3) the net profit in the income statement will be wrong

A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
3. Which of the following statements about the Hang Seng Index is **not** correct?

A. Its sub-indexes are: Finance, Utilities, Properties, and Commerce and Industry.  
B. It measures the performance of the largest and most liquid companies listed in Hong Kong.  
C. It includes 50 stocks listed on the Growth Enterprise Market.  
D. It serves as a benchmark of the general performance of the Hong Kong stock market.
4. Which of the following statements about business management are correct?
  - (1) Under the unity of command principle, each employee only receives orders from one superior.
  - (2) A tall organisation has more layers than a flat organisation.
  - (3) Communication between superiors and subordinates can be improved by adopting Management by Objectives.

A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
5. In the accounting cycle, which of the following steps comes immediately after the preparation of a trial balance?

A. preparing financial statements  
B. making period-end adjustments  
C. posting entries to the ledgers  
D. recording transactions in the books of original entry

6. Which of the following statements about the trade relationship between Hong Kong and the Mainland are correct?
- (1) Hong Kong is the largest trading partner of the Mainland.
  - (2) In terms of the value of goods, the Mainland is the largest re-export destination of Hong Kong.
  - (3) Many goods originating in Hong Kong exported to the Mainland are tariff-free.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
7. Anna is 62 years old and works as a part-time consultant in a firm, with a monthly salary of \$40 000. Under the Mandatory Provident Fund System, what will be the amount Anna contributes each month?
- A. \$4000
  - B. \$2000
  - C. \$1500
  - D. \$0
8. Which of the following tasks is/are performed by the information management department of a company?
- (1) designing a file storage system for the training records of the human resources department
  - (2) assisting the marketing department to process market research data
  - (3) preparing the budget for the finance department
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
9. If an account has a debit balance, which of the following statements about the account is correct?
- A. The total amount of the debit side in the account is higher than the total amount of the credit side.
  - B. The balance carried down appears on the debit side of the account.
  - C. The balance brought down appears on the right hand side of the account.
  - D. The account is an asset account.
10. Mr Lee is going to deposit an amount into a savings account with interest of 7% per year, compounded annually. He wants to receive a sum of \$150 000 from the account after 3 years. How much should he put into the savings account now?
- A. \$120 654
  - B. \$122 445
  - C. \$131 016
  - D. \$183 756

11. Compared to a sole proprietorship, which of the following is/are the advantage(s) of a limited company?

- (1) the business will not be closed upon withdrawal or death of the owner(s)
- (2) the setup cost is lower
- (3) the profits tax rate is lower

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

12. Chan Kee and Yip Kee are trading firms in the same industry. Their gross profit ratios and net profit ratios for the year 2016 are shown below:

	Chan Kee	Yip Kee
Gross profit ratio	39%	45%
Net profit ratio	24%	20%

Based on the above ratios, which of the following can be concluded?

- A. Yip Kee has a higher sales amount.
- B. Yip Kee has a higher cost of goods sold.
- C. Chan Kee has a higher net profit.
- D. Chan Kee has better control over operating expenses.

13. If the nominal rate of return remains unchanged, which of the following statements about the effective rate of return are correct?

- (1) Effective rate of return reflects the actual return on an investment.
- (2) Effective rate of return will be higher if the amount of the principal increases.
- (3) Effective rate of return will be higher if the frequency of compounding increases.

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

14. Which of the following illustrate the importance of entrepreneurship in business development?

- (1) reduce business risks
- (2) promote economic growth
- (3) encourage innovation

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

15. Which of the following is **not** a use of financial statements?

- A. assist different users in making decisions
- B. provide information about the financial position of a business
- C. provide information to employees for assessing their job security
- D. provide qualitative information regarding the performance of a business

16. Which of the following is/are physical factor(s) that might affect businesses in Hong Kong?
- (1) climatic condition
  - (2) air quality
  - (3) population structure
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
17. The following are the basic listing requirements for new applicants to list their stocks on the Main Board of the Stock Exchange of Hong Kong except \_\_\_\_\_.
- A. size of workforce
  - B. amount of cash flow
  - C. history of operation
  - D. profit attributable to shareholders
18. From the point of view of a franchisor, which of the following is/are the shortcoming(s) of running a business in the form of franchising?
- (1) Franchisee may set up his own business to become a competitor.
  - (2) It is difficult to wholly control the operation style of franchisee(s).
  - (3) If a franchisee manages his business poorly, the reputation of the whole franchise business will be affected.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
19. Mr Wong set up a firm on 1 January 2017. He introduced his motor van of \$40 000 into the firm. The firm borrowed \$200 000 from Mr Wong's relatives to purchase office equipment and \$100 000 from bank for the business operation.
- What are the amounts of the firm's assets, liabilities and capital on 1 January 2017?
- |    | <u>Assets</u> | <u>Liabilities</u> | <u>Capital</u> |
|----|---------------|--------------------|----------------|
|    | \$            | \$                 | \$             |
| A. | 240 000       | 200 000            | 40 000         |
| B. | 40 000        | 300 000            | 340 000        |
| C. | 340 000       | 100 000            | 240 000        |
| D. | 340 000       | 300 000            | 40 000         |
20. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong are correct?
- (1) The majority of businesses in Hong Kong are SMEs.
  - (2) The forms of business ownership of SMEs are either sole proprietorship or partnership.
  - (3) SMEs are usually managed by their owners.
- 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 21 and 22.

As at 31 December 2016, Wong's firm had the following assets and liabilities:

	\$
Non-current assets	280 000
Bank	18 000
Cash	58 000
Inventory	71 000
Trade payables	86 000
Trade receivables	162 000
Long term bank loan	120 000

21. What is the quick ratio of Wong's firm for 2016?
- A. 1.16 : 1  
B. 2.77 : 1  
C. 3.59 : 1  
D. 6.02 : 1
22. What is the amount of working capital in Wong's firm as at 31 December 2016?
- A. \$103 000  
B. \$152 000  
C. \$223 000  
D. \$503 000
23. Which of the following are the benefits for a borrower of maintaining a good personal credit record?
- (1) lower interest rate on personal loan  
(2) higher credit limit  
(3) better terms when opening a term deposit account
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
24. Which of the following statements about 'unity of direction' is correct?
- A. Each supervisor is responsible for one project at a time.  
B. Each employee works towards one goal in each period.  
C. Employees working on the same project have the same goal.  
D. The goals of a business should be accomplished within a reasonable timeframe.
25. Which of the following descriptions about accounting assumptions, principles and conventions is correct?
- A. Historical cost: all business transactions should be recorded in the books  
B. Business entity: a sole proprietor can record his personal spending in the books of his business  
C. Consistency: the accounting policies and methods cannot be changed once adopted  
D. Going concern: a business will continue in operation for the foreseeable future

26. Which of the following will affect the share price of a listed company selling motorcars?
- (1) fuel price
  - (2) interest rate
  - (3) dividend policy of the company
- 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 **not** an advantage of adopting democratic leadership for a business?
- A. enhance operational efficiency
  - B. widen managers' exposure
  - C. strengthen staff support for business policies
  - D. improve mutual understanding between management and staff
28. Which of the following double entries is/are correct?
- |     | <u>Transaction</u>   | <u>Account to be debited</u> | <u>Account to be credited</u> |
|-----|--|------------------------------|-------------------------------|
| (1) | Settled a trade debt by cheque                                   | Trade payables               | Bank                          |
| (2) | Sold the office furniture of the firm on credit                  | Trade receivables            | Sales                         |
| (3) | Paid carriage expenses for delivering goods to customers in cash | Carriage outwards            | Cash                          |
- A. (1) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
29. Which of the following statements about accounting ratios is/are correct?
- (1) They are used to evaluate the financial results of a business.
  - (2) For the calculations of all profitability ratios, the denominator is 'Sales'.
  - (3) The acid-test ratio of a firm is higher than its current ratio.
- A. (1) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
30. Which of the following statements about a nominal partner is/are correct?
- (1) He is liable for the debts of the partnership.
  - (2) He takes part in the operation of the partnership.
  - (3) His reputation helps promote the partnership's businesses.
- A. (1) only
  - B. (2) only
  - C. (3) only
  - D. (2) and (3) only

**END OF SECTION A**

**SECTION B (30 marks)**

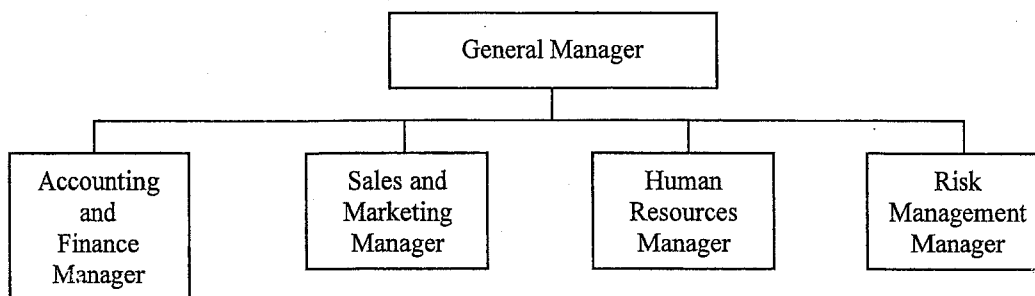
**Part 1 (20 marks)** Answer **ALL** questions in this part.

1.
  - (a) What is a joint venture? (1 mark)
  - (b) Outline two advantages of running a business in the form of a joint venture. (4 marks)
  
2. Mary has just retired and received her retirement fund. A financial planner advised her to invest the retirement fund in various financial instruments.
  - (a) Explain two of Mary's financial needs after her retirement. (4 marks)
  - (b) As an investor, what responsibilities does Mary have? List any two. (2 marks)

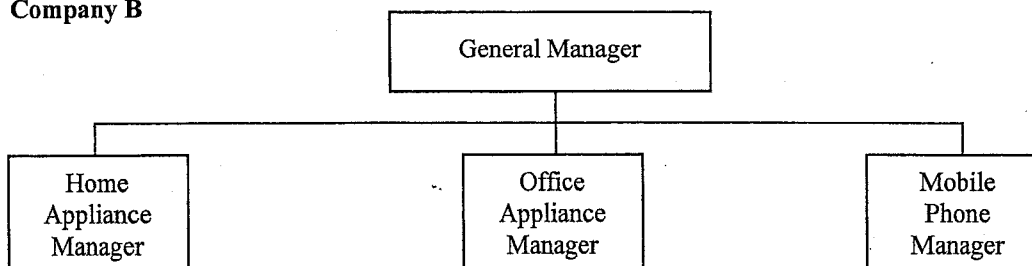


3. Company A and Company B are retail businesses selling electrical appliances. Their organisation charts are as follows:

**Company A**



**Company B**



- (a) State the form of departmentalisation adopted by the two companies:
- (i) Company A
  - (ii) Company B (2 marks)
- (b) Which of the General Managers of the two companies above has a wider span of control? (1 mark)

Recently, the warehouse of Company A caught fire, which led to substantial losses.

- (c) Which department of Company A should be responsible for claiming insurance compensation? Explain one main role of this department in the company. (3 marks)

The financial year of Company B ends on 31 December. On 4 January 2017, Company B received an electricity bill for December 2016 of \$9500. It then settled the bill on 29 January 2017.

- (d) Explain, with a relevant accounting principle or concept, in which year the electricity of \$9500 should be recorded as an expense. (3 marks)

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

**Based on the following information, answer either Question 4 or 5.**

John commenced a firm selling grocery and household products on 1 January 2016. Three employees were hired for the operation of the firm.

The following balances were obtained from his books as at 31 December 2016:

	\$
Capital, 1 January 2016	240 000
Bank overdraft	173 400
Furniture	204 000
Sales	796 200
Purchases	500 400
Returns inwards	1 800
Returns outwards	1 500
Discounts received	2 100
Operating expenses	507 000

**Answer ONE question.**

4. (a) Prepare for John's firm a trial balance as at 31 December 2016. (5 marks)
- (b) What is business ethics? (1 mark)
- (c) For each of the following stakeholders, illustrate with one example how John can ensure that the operation of his firm is socially responsible:
- (i) employees of the firm (2 marks)
- (ii) residents living around the firm (2 marks)
- (Total: 10 marks)

5. The inventory as at 31 December 2016 was valued at \$195 000.

- (a) Prepare for John's firm an income statement for the year ended 31 December 2016. (5 marks)

A business consultant advised John to set goals for his firm.

- (b) State the management function that the task of setting goals for John's firm belongs to. (1 mark)
- (c) Explain two reasons why John should set goals for his firm. (4 marks)

(Total: 10 marks)

**END OF PAPER**

**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 are some accounting principles and conventions:

- ♦ Money measurement
- ♦ Consistency
- ♦ Going concern
- ♦ Business entity
- ♦ Timeliness
- ♦ Materiality
- ♦ Realisation

Situations:

- (i) Owner's personal assets are not recorded in the books of his business.
- (ii) A business discloses its financial information as soon as possible, so that it can be used by users for decision-making.
- (iii) Assets are not recorded at their liquidation values in the statement of financial position when a business is not expected to liquidate in the foreseeable future.
- (iv) The expertise of the top management is not recorded in the statement of financial position.
- (v) Sales revenues are recognised when goods are delivered to and accepted by customers.

**REQUIRED:**

- (a) Referring to the above table, identify the most appropriate accounting principle or convention for each of the situations. (5 marks)

In a multinational corporation, a calculator costing \$50, with an estimated useful life of 10 years, was purchased for office use. The whole amount of \$50 was recorded as an expense in the year of purchase.

**REQUIRED:**

- (b) State and explain the accounting principle or convention that has been applied in this case. (3 marks)

(Total: 8 marks)

2. Tommy Company sells only one product and uses the weighted average cost method for inventory valuation. The following information for the month of March 2017 was available:

<u>Date</u>	<u>Details</u>	<u>Units</u>	<u>Cost/unit</u> \$
March 12	Purchases	500	40
March 20	Purchases	1 500	36

<u>Date</u>	<u>Details</u>	<u>Units</u>	<u>Selling price/unit</u> \$
March 8	Sales	250	45
March 28	Sales	1 600	39

The opening inventory as at 1 March 2017 included 400 units with an average cost of \$43 each. Operating expenses for the month were \$14 350.

**REQUIRED:**

- Compute the value of closing inventory as at 31 March 2017. Show your workings. (2 marks)
- Prepare the income statement for the month ended 31 March 2017, showing clearly the values of opening inventory, purchases and closing inventory. (3 marks)
- If the net realisable value of the closing inventory as at 31 March 2017 was \$35 per unit, explain the impact, with supporting calculations, on the amount of gross profit for the month of March 2017. (3 marks)

(Total: 8 marks)

3. Star Manufacturing Company acquired a production machine for \$432 000 on 1 January 2013. The expected total production hours of the machine are 8000 hours during its useful life of four years. No residual value is expected and annual depreciation is to be provided based on the usage of the machine.

The actual annual hours used for production were as follows:

<u>Year</u>	<u>Actual production hours</u>
2013	1 800
2014	2 300
2015	2 400
2016	2 500

**REQUIRED:**

- (a) Calculate the annual depreciation expenses of the machine for 2015 and 2016. (2 marks)

KM Company is a manufacturer producing a single product, Y. The following information for its three types of manufacturing overheads is available. Each overhead type demonstrates different cost behaviour. The maximum annual production capacity of KM Company is 600 000 units.

Production level (units)	360 000	420 000	480 000	540 000	600 000
Manufacturing overheads:	\$	\$	\$	\$	\$
- Type P	400 000	400 000	400 000	(i)	400 000
- Type Q	180 000	210 000	(ii)	270 000	300 000
- Type R*	77 000	(iii)	101 000	113 000	125 000

\*Type R includes fixed manufacturing overheads and variable manufacturing overheads.

**REQUIRED:**

- (b) Compute the amounts for items (i) to (iii) in the above table. (3 marks)
- (c) With reference to cost behaviour, identify the type of manufacturing overheads that Type R belongs to. (1 mark)

KM Company is considering a one-off special order from a customer. It has sufficient production capacity to cope with this order.

**REQUIRED:**

- (d) With reference to cost behaviour, when KM Company decides whether to accept the order, which of the above three types of manufacturing overheads (P, Q or R) is irrelevant? Briefly explain your answer. (2 marks)

(Total: 8 marks)

**SECTION B (36 marks)**

Answer **ALL** questions in this section.

4. The cash at bank account of PP Limited showed a debit balance of \$105 468 as at 31 December 2016, which did not agree with the balance shown in the bank statement on that date.

Subsequent checking of the cash at bank account with the bank statement found that:

- (i) The following cheques had been issued and recorded in the books but had not yet been presented to the bank:

Cheque Number	Payee	Issue date	\$
408226	K&K Limited	22 June 2016	15 236
450998	Coco Company	4 August 2016	35 060
482118	Sunny Limited	30 October 2016	7 850

It is the practice of the bank not to honour cheques outstanding for more than six months.

- (ii) A direct debit for electricity of \$900 had not yet been recorded in the books.
- (iii) PP Limited was notified that an adjustment of \$8755 would be made by the bank in January 2017 for a debit entry made in error on 26 December 2016.
- (iv) Bank charges of \$794, shown in the bank statement, had not been recorded in the books.
- (v) On 27 December 2016, dividend income of \$3160 was credited by the bank but no entry had been made in the books.
- (vi) On 29 December 2016, a cheque received from a customer for \$11 630 was returned by the bank due to insufficient funds. No entries had been made in the books for the returned cheque.
- (vii) A cheque for payment of rent and rates of \$21 350 was wrongly recorded as \$21 530 in the books.
- (viii) Cheques deposited on 31 December 2016 amounting to \$81 425 were recorded in the books but had not been credited by the bank.
- (ix) During 2016, a term deposit of \$60 000 was made and recorded in the term deposit account. The bank credited an amount of \$61 200, the principal and interest, to the account of PP Limited when the term deposit matured on 2 January 2017, but PP Limited recorded the receipt on 31 December 2016.

**REQUIRED:**

- (a) Update the cash at bank account of PP Limited. (6 marks)
- (b) Prepare a bank reconciliation statement as at 31 December 2016, commencing with the updated balance of the cash at bank account. (4 marks)

(Total: 10 marks)

5. ABC Limited drafted a trial balance as at 31 December 2016, before the preparation of the closing entries. As the trial balance did not agree, a suspense account was opened.

Subsequent investigation revealed the following errors and omissions:

- (i) Discounts allowed of \$3400 had not been recorded in the books.
- (ii) A cash sale of \$28 050 to Pearl Limited was recorded in the sales journal as \$28 500 and posted to the ledgers accordingly. No entry for the receipt was made in the books.
- (iii) An invoice for credit purchase was overstated by \$270.
- (iv) Goods returned to a supplier for \$440 were debited to both trade payables account and returns inwards account.

**REQUIRED:**

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (5 marks)

On 31 December 2016, the following balances were extracted from the ledgers of ABC Limited, before recording the adjustments in (a) above:

	\$
Ordinary share capital	1 305 000
Preference share capital	760 000
Retained profits, 1 January 2016	10 000
Loans, repayable in June 2018	320 000

The draft net profit for the year ended 31 December 2016 was \$7700. No dividends were declared for 2016.

**REQUIRED:**

- (b) Prepare a statement to calculate the retained profits as at 31 December 2016, showing all necessary adjustments and the adjusted net profit for 2016. (4 marks)
- (c) Calculate the gearing ratio of ABC Limited for 2016. (2 marks)
- (d) Explain two differences in terms of the right to dividends for ordinary shareholders and preference shareholders. (2 marks)

(Total: 13 marks)



6. Nice Company commenced business on 1 January 2016. It produces a single product, M1. The income statement for the year ended 31 December 2016 was as follows:

	\$	\$
Sales (9600 units)		2 400 000
<u>Less: Cost of goods sold</u>		
Direct materials	300 000	
Direct labour	600 000	
Fixed production overheads	930 000	
	<u>1 830 000</u>	
Less: Closing inventory (2400 units)	<u>366 000</u>	
	1 464 000	
Add: Under-absorbed fixed production overheads	<u>15 000</u>	<u>1 479 000</u>
Gross profit		921 000
Less: Selling and administrative overheads		
- fixed	360 000	
- variable (include sales commission only)	<u>240 000</u>	<u>600 000</u>
Net profit		<u><u>321 000</u></u>

**REQUIRED:**

- (a) Calculate the contribution margin per unit of M1. (4 marks)
- (b) Calculate the breakeven sales amount for 2016. (4 marks)

Nice Company is considering producing an advanced model 'Super-M' in 2018. If Nice Company produces both M1 and 'Super-M', the production information is estimated as follows:

	<u>M1</u>	<u>Super-M</u>
Annual production	5 000 units	7 000 units
Direct labour hour required per unit	$\frac{1}{10}$ hour	$\frac{1}{6}$ hour
Machine hour required per unit	$\frac{4}{5}$ hour	$\frac{2}{3}$ hour

Fixed production overheads of 2018 are budgeted at \$988 000, which mainly covers factory rent, machine maintenance and depreciation for machinery.

**REQUIRED:**

- (c) Calculate the predetermined fixed production overhead absorption rate (to 2 decimal places) for each unit of M1 and 'Super-M' respectively, using the following cost absorption bases:
- (i) direct labour hours
- (ii) machine hours (3 marks)
- (d) Briefly explain which cost absorption basis, direct labour hours or machine hours, would you recommend to Nice Company. (2 marks)

(Total: 13 marks)

**SECTION C (20 marks)**

Answer **ONE** question in this section.

7. Mark started his business as a sole proprietor on 1 January 2015. All purchases and sales were made on credit.

On 31 December 2016, a fire broke out in the warehouse. All inventory, except some goods costing \$15 000, was destroyed. Although many of the records were destroyed in the fire, the following information was available after investigation:

- (i) Information on assets and liabilities was confirmed as follows:

	31.12.2015	31.12.2016
	\$	\$
Motor van, net	24 000	?
Inventory	143 000	15 000
Trade receivables	12 100	13 700
Trade payables	149 700	135 000
Accrued sundry expenses	2 440	2 180
Cash at bank	61 800	?

- (ii) The balance as per bank statement as at 31 December 2016 was \$99 180.
- (iii) During 2016, receipts from customers \$1 404 900 were banked, after payments of part-time staff salaries \$89 400 and Mark's drawings \$29 500.
- (iv) The bank statements of 2016 showed that total payments made to trade suppliers amounted to \$987 970. A cheque of \$1200 issued in December 2016 for purchase of goods in 2016 was not presented until 10 January 2017.
- (v) Sales were made at a gross profit margin of 30% in 2016, except for some outdated goods, costing \$50 000, which were sold at cost.
- (vi) A 2% term deposit was made by transferring \$20 000 from the cash at bank account on 1 July 2016. The term deposit will mature on 1 July 2019.
- (vii) The payment for rent and rates of \$127 750 in 2016 included a rental deposit of \$8000 for a short-term tenancy agreement.
- (viii) During 2016, full-time staff salaries and sundry expenses of \$129 000 and \$42 800 respectively were paid.
- (ix) In 2016, Mark injected \$10 000 cash into the business and withdrew \$70 000 from the bank for his personal use.
- (x) The motor van was brought in by Mark at the commencement of the business. Depreciation is to be provided on the motor van at 20% per annum on cost.

**REQUIRED:**

- (a) For Mark's business, prepare
  - (i) an income statement for the year ended 31 December 2016, and (10 marks)
  - (ii) a statement of financial position as at 31 December 2016, showing the change in capital during the year. (7 marks)
- (b) Briefly explain the meanings of normal loss and abnormal loss of inventory. Identify the type of inventory loss caused to Mark's business by the fire. (3 marks)

(Total: 20 marks)

8. Bill and Ben have been in partnership sharing profits and losses in the ratio of 1:3. On 1 January 2016, Bill retired from the partnership and Tom was admitted as a new partner. Profits and losses were to be shared equally in the new partnership.

Upon the retirement of Bill and admission of Tom, the partners agreed on the following terms:

- (i) Tom had to bring in \$240 000 cash as capital and was entitled to a monthly salary of \$2000.
- (ii) Equipment was to be revalued at \$248 000.
- (iii) Goodwill was to be valued at \$96 000 and no goodwill account was to be maintained in the books. The adjustments for goodwill were to be made in the capital accounts directly.
- (iv) The amount due to Bill by the partnership was to be left in a loan account, bearing an interest of 2% per annum.

The new partnership continued to use the books without making any entries in respect of the retirement of Bill and admission of Tom. The trial balance as at 31 December 2016 was prepared as follows:

	Dr	Cr
	\$	\$
Capital accounts at 1 January 2016		
– Bill		162 000
– Ben		466 000
Current accounts at 1 January 2016		
– Bill		42 000
– Ben	20 000	
Equipment, net	120 000	
Trade receivables	70 000	
Inventory	98 000	
Cash at bank	21 000	
Trade payables		30 000
Net loss before interest	371 000	
	<u>700 000</u>	<u>700 000</u>

Depreciation had been provided on equipment till 31 December 2016 at 20% on its net book value.

**REQUIRED:**

- (a) Prepare the partners' capital accounts in columnar form, showing the necessary adjustments for the retirement of Bill and admission of Tom. (6 marks)
- (b) (i) Prepare the appropriation account of the partnership for the year ended 31 December 2016. (3 marks)
- (ii) Update the partners' current accounts of Ben and Tom in columnar form. (2 marks)
- (c) State any two items, other than those appearing in (b)(ii) above, that would be recorded in a partner's current account. (2 marks)

The partnership was not operated well and heavy losses resulted. The partnership was dissolved on 1 January 2017. The following arrangements were made:

- (i) Equipment was taken over by Ben at \$174 000.
- (ii) Total amounts received from trade receivables and sales of inventory were \$96 000.
- (iii) Trade payables were settled in full at \$29 000.
- (iv) Expenses for realisation of assets \$6000 were paid.
- (v) After negotiation, the loan interest due to Bill was waived and the loan from Bill was settled in full.

**REQUIRED:**

- (d) Prepare the realisation account. (4 marks)
- (e) Prepare the partners' capital accounts in columnar form, showing the necessary adjustments for the dissolution. (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.

### General Notes on Marking

1. Teachers are strongly advised to conduct their own internal standardisation procedures using the marking scheme before the actual marking begins. After standardisation, teachers should adhere to the marking scheme to ensure a uniform standard of marking within the school.
2. The marking scheme may not exhaust all possible answers for each question. Teachers should exercise their professional discretion and judgment in accepting alternative answers that are not in the marking scheme, but are correct and well-reasoned.
3. In questions asking for a specified number of reasons or examples etc., and a student gives more than the required number, the extra answers should not be marked. For instance, in a question asking students to provide two examples, and a student gives three answers, only the first two should be marked.
4. The general guidelines for points which are awarded 0 mark to 3 marks each are as follows:  

0 mark	:	irrelevant or ambiguous answers
1 mark	:	relevant phrases containing key words that answer the question
2 / 3 marks	:	a relevant point or answer with a brief explanation of the concept/key words and/or illustration of how it is related to the given scenario

## PAPER 1

### SECTION A

Question No.	Key	Question No.	Key
1.	C (42%)	16.	B (61%)
2.	A (38%)	17.	A (56%)
3.	C (62%)	18.	D (61%)
4.	D (71%)	19.	D (73%)
5.	B (47%)	20.	B (68%)
6.	C (54%)	21.	B (74%)
7.	C (35%)	22.	C (70%)
8.	B (79%)	23.	A (60%)
9.	A (51%)	24.	C (64%)
10.	B (90%)	25.	D (80%)
11.	A (82%)	26.	D (57%)
12.	D (75%)	27.	A (57%)
13.	B (55%)	28.	B (65%)
14.	C (77%)	29.	A (69%)
15.	D (40%)	30.	C (82%)

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

## SECTION B PART 1

### QUESTION 1

Marks

- (a) Joint venture: 1
- two or more businesses form a new business entity to carry out joint project(s)
- (b) Advantages: Max 4
- more capital/resources can be contributed by joint venture partners
  - business risks can be shared among joint venture partners
  - easier entry into new market: joint venture partners know local market well/have local connections
  - can bring in expertise/goodwill of different joint venture partners
  - can enjoy economies of scale
- (2 marks for each relevant advantage, maximum 4 marks)

5 marks

### QUESTION 2

Marks

- (a) Financial needs: 4
- paying daily expenses to maintain her living
  - meeting contingencies, e.g. urgent medical expenses
  - estate planning, e.g. funeral expenses
- (2 marks for each relevant need, maximum 4 marks)
- (b) Responsibilities: 2
- understanding the terms of the investment contract before signing it
  - checking account statements and transaction documents
  - understanding the characteristics and the risks of the investment instruments involved
- (1 mark for each relevant responsibility, maximum 2 marks)

6 marks

### QUESTION 3

Marks

- (a) (i) Company A: departmentalisation by function 1
- (ii) Company B: departmentalisation by product 1
- (b) General Manager of Company A 1
- (c) Risk Management Department 1
- Main role: 2
- identifying the possible risks the business is exposed to
  - formulating risk management strategies to manage the risks
- (2 marks for each relevant role, maximum 2 marks)
- (d) – 2016 1
- accrual concept 1
- revenues and expenses are recognised when they are earned or incurred and are included in the financial statements of that year 1

9 marks

## PART 2

### QUESTION 4

Marks

(a)

John			
Trial balance as at 31 December 2016			
	Dr	Cr	}
	\$	\$	
Capital, 1 January 2016		240 000	0.5
Bank overdraft		173 400	0.5
Furniture	204 000		0.5
Sales		796 200	0.5
Purchases	500 400		0.5
Returns inwards	1 800		0.5
Returns outwards		1 500	0.5
Discounts received		2 100	0.5
Operating expenses	507 000		0.5
	<u>1 213 200</u>	<u>1 213 200</u>	(5)

- (b) Business ethics: 1
- the moral principles, values and beliefs which govern the behaviours of a business
- (c) (i) employees of the firm: 2
- providing fair and reasonable remuneration
  - providing a safe and pleasant working environment
- (2 marks for each explanation, max. 2 marks)
- (ii) residents living around the firm 2
- disposing of litter and waste appropriately
  - sponsoring community activities
- (2 marks for each explanation, max. 2 marks)

10 marks



# QUESTION 5

Marks

(a)

John

Income statement for the year ended 31 December 2016

	\$	\$	
Sales		796 200	0.5
Less: Returns inwards		1 800	0.5
		<u>794 400</u>	
<u>Less: Cost of goods sold</u>			
Purchases	500 400		0.5
Less: Returns outwards	1 500		0.5
	<u>498 900</u>		
Less: Closing inventory	195 000	303 900	0.5
Gross profit		490 500	0.5
Add: Discounts received		2 100	0.5
		<u>492 600</u>	
Less: Operating expenses		507 000	0.5
Net loss		<u>(14 400)</u>	0.5
			(5)

(b) Management function:

– planning

1

(c) Reasons:

– to help capture opportunities and deal with challenges

– to provide direction to his staff

– to provide standards for monitoring work progress

(2 marks for each relevant reason, maximum 4 marks)

4

10 marks

END OF PAPER 1

**Paper 2A**  
**Accounting Module**

**SECTION A**

**QUESTION 1**

**Marks**

- |     |             |   |     |
|-----|-------------|---|-----|
| (a) | i.          | Business entity   | 1   |
|     | ii.         | Timeliness  | 1   |
|     | iii.        | Going concern   | 1   |
|     | iv.         | Money measurement   | 1   |
|     | v.          | Realisation   | 1   |
|     |             |   | (5) |
|     |             |   |     |
| (b) | Materiality |   | 1   |
|     | -           | Materiality refers to the impact of an item's nature and size on the company's financial operations. / Information is material if omitting it or mis-stating it could influence decisions that users make on the basis of the reported financial information. | 1   |
|     | -           | The calculator is insignificant in value in view of a multinational corporation's size of operations, and hence it should be recorded as an expense in the year of purchase.  | 1   |
|     |             |   | (3) |

8 marks

**QUESTION 2**

**Marks**

- (a)    Number of units remaining unsold =  $(400 + 500 + 1500) - (250 + 1600) = 550$  units  
        Unit average cost =  $\$(17\,200 + 20\,000 + 54\,000) / 2400 \text{ units} = \$38/\text{unit}$   
        Value of closing inventory =  $\$38 \times 550 \text{ units} = \text{\$20 900}$  (2)

(b)

Tommy Company			
Income statement for the month ended 31 March 2017			
	\$	\$	
Sales $(250 \times \$45 + 1600 \times \$39)$		73 650	0.5
Less: <u>Cost of goods sold</u>			
Opening inventory	17 200		0.5
Purchases	<u>74 000</u>		0.5
	91 200		
Less: Closing inventory	<u>20 900</u>	<u>70 300</u>	0.5
Gross profit		3 350	
Less: Operating expenses		<u>14 350</u>	0.5
Net loss		<u><u>11 000</u></u>	0.5
			(3)

- (c)    -    the gross profit for the month of March 2017 will decrease by \$1650  $(\$3 \times 550)$ /decrease to \$1700 2  
        -    because of applying the rule of lower of cost and net realisable value 1

(3)

8 marks

### QUESTION 3

Marks

- (a) 2015 Depreciation expense =  $\$432\,000 \times 2400/8000 = \$129\,600$  1
- 2016 Depreciation expense =  $\$432\,000 \times (8000 - 1800 - 2300 - 2400)/8000 = \$81\,000$  1  
(2)
- (b) (i) \$400 000 0.5
- (ii)  $[(\$300\,000 - \$180\,000) / (600\,000 - 360\,000)] \times 480\,000$   
=  $\$0.5 \times 480\,000$   
= \$240 000 1
- (iii) Variable cost per unit =  $(\$125\,000 - \$77\,000)/(600\,000 - 360\,000)\text{units} = \$0.2$  per unit 1.5  
Fixed cost =  $\$125\,000 - (\$0.2 \times 600\,000\text{ units}) = \$5000$   
Total cost =  $\$5000 + (\$0.2 \times 420\,000\text{units}) = \$89\,000$  (3)
- (c) mixed cost/semi-variable cost/semi-fixed cost (1)
- (d) - Type P 1
- Type P is a fixed cost. Given that KM Company has sufficient production capacity, Type P would not change no matter whether the special order is accepted or not. 1

(2)

8 marks

### SECTION B

#### QUESTION 4

Marks

Cash at bank			
	\$		\$
0.5 Balance b/d	105 468	Electricity (ii)	900 0.5
1 K & K Limited (i)	15 236	Bank charges (iv)	794 0.5
0.5 Dividend income (v)	3 160	Trade receivables (vi)	11 630 1
1 Rent and rates (vii)	180	Term deposit (ix)	60 000 0.5
		Interest income (ix)	1 200 0.5
		Balance c/d	<u>49 520</u>
	<u>124 044</u>		<u>124 044</u>

(6)

#### Bank reconciliation statement as at 31 December 2016

		\$	\$	
Adjusted balance as per cash at bank account			<u>49 520</u>	0.5
Add: Unpresented cheques (i)				
-450998		35 060		0.5
-482118		<u>7 850</u>	<u>42 910</u>	0.5
			92 430	
Less: Incorrect debit made by bank (iii)		8 755		1
Uncredited deposits (viii)		<u>81 425</u>	<u>90 180</u>	1
Balance as per bank statement			<u>2 250</u>	0.5

(4)

10 marks

# QUESTION 5

Marks

(a) The Journal		Dr	Cr	
		\$	\$	
(i)	Discounts allowed	3 400		0.5
	Trade receivables		3 400	0.5
(ii)	Cash	28 050		0.5
	Sales	450		0.5
	Trade receivables - Pearl Limited		28 500	0.5
(iii)	Trade payables	270		0.5
	Purchases		270	0.5
(iv)	Suspense	880		0.5
	Returns inwards		440	0.5
	Returns outwards		440	0.5
				(5)

(b) Statement to calculate the retained profits as at 31 December 2016		\$	\$	
	Draft net profit for 2016		7 700	
Adjustments:	Discounts allowed omitted (i)	(3 400)		0.5
	Sales overstated (ii)	(450)		0.5
	Purchases overstated (iii)	270		0.5
	Returns inwards wrongly debited (iv)	440		0.5
	Returns outwards omitted (iv)	440	(2 700)	0.5
	Adjusted net profit for 2016		5 000	0.5
	Retained profits as at 1 January 2016		10 000	0.5
	Retained profits as at 31 December 2016		<u>15 000</u>	0.5
				(4)

(c)	Gearing ratio:			
	=	$\frac{320\,000 + 760\,000}{320\,000 + (1\,305\,000 + 760\,000 + 15\,000)}$	x	100%
	=	45%		(2)

- (d) - The dividend per share for preference shares is usually fixed, while it varies for ordinary shares. Max. 2
- The preference shareholders usually have the right to receive dividends prior to the ordinary shareholders.
- (1 mark for each difference, maximum 2 marks)

(2)

13 marks

# QUESTION 6

## Marks

- |     |  |     |
|-----|--|-----|
| (a) | Selling price: $(\$2\,400\,000/9600) = \$250$ per unit   | 1   |
|     | Variable cost of goods sold: $(\$300\,000 + \$600\,000)/(2400+9600) = \$75$ per unit   | 1   |
|     | Variable selling and administrative overheads: $(\$240\,000/9600) = \$25$ per unit   | 1   |
|     | Contribution margin: $\$250 - \$75 - \$25 = \$150$ per unit  | 1   |
|     |  | (4) |
| (b) | Total fixed overheads: $(\$15\,000 + \$930\,000) + \$360\,000 = \$1\,305\,000$   | 1   |
|     | Contribution margin ratio: $\$150/\$250 = 0.6$   | 1   |
|     | Breakeven sales: $\$1\,305\,000/0.6 = \$2\,175\,000$   | 2   |
|     | <b>OR</b>  |     |
|     | $(\$1\,305\,000/\$150)\text{units} \times \$250 = 8700 \text{ units} \times \$250 = \$2\,175\,000$   |     |
|     |  | (4) |
| (c) | (i) Total direct labour hours: $(6 \text{ minutes} \times 5000) + (10 \text{ minutes} \times 7000) = 100\,000 \text{ minutes}$   | 0.5 |
|     | Predetermined fixed production overhead absorption rate:   |     |
|     | M1: $\$988\,000/100\,000 \times 6 \text{ minutes} = \$59.28$ per unit  | 0.5 |
|     | Super-M: $\$988\,000/100\,000 \times 10 \text{ minutes} = \$98.8$ per unit   | 0.5 |
|     | (ii) Total machine hours: $(48 \text{ minutes} \times 5000) + (40 \text{ minutes} \times 7000) = 520\,000 \text{ minutes}$   | 0.5 |
|     | Predetermined fixed production overhead absorption rate:   |     |
|     | M1: $\$988\,000/520\,000 \times 48 \text{ minutes} = \$91.2$ per unit  | 0.5 |
|     | Super-M: $\$988\,000/520\,000 \times 40 \text{ minutes} = \$76$ per unit   | 0.5 |
|     |  | (3) |
| (d) | - machine hour   | 1   |
|     | - as the operation is machine-oriented/machine maintenance and depreciation for machinery are the main components of fixed production overheads/total machine hours used is nearly five-fold of total direct labour hours used | 1   |
|     |  | (2) |

13 marks

# SECTION C

## QUESTION 7

Marks

(a) (i)

		Mark	
		Income statement for the year ended 31 December 2016	
		\$	\$
Sales	(\$1 523 800 + \$13 700 - \$12 100)		1 525 400
Less:	<u>Cost of goods sold</u>		
	Opening inventory	143 000	
	Add: Purchases (\$989 170 + \$135 000 - \$149 700)	974 470	
		1 117 470	
	Less: Closing inventory	15 000	
		1 102 470	
	Less: Destroyed inventory (Balancing figure)	19 690	1 082 780
Gross Profit	(\$1 525 400 - \$50 000) x 30%		442 620
Add: Interest income			200
			442 820
Less:	<u>Expenses</u>		
	Staff salaries (\$129 000 + \$89 400)	218 400	
	Rent and rates (\$127 750 - \$8000)	119 750	
	Sundry expenses (\$42 800 + \$2180 - \$2440)	42 540	
	Inventory loss	19 690	
	Depreciation on motor van (\$24 000/0.8) x 20%	6 000	406 380
Net profit			36 440

(ii)

(17)

Mark

Statement of financial position as at 31 December 2016

	\$	\$	
<u>Non-current Assets</u>			
Motor van, net (\$24 000 - \$6000)		18 000	0.5
2% Term deposit		20 000	0.5
		<u>38 000</u>	
<u>Current Assets</u>			
Inventory	15 000		0.5
Rental deposit	8 000		0.5
Interest receivable	200		0.5
Trade receivables	13 700		0.5
Cash at bank (\$99 180 - \$1200)	<u>97 980</u>	<u>134 880</u>	1
		<u><u>172 880</u></u>	
<u>Capital</u>			
Balance as at 1 January 2016	88 760		0.5
Add: Capital injection	10 000		0.5
Add: Net profit for the year	<u>36 440</u>		0.5
	135 200		
Less: Drawings (\$29 500 + \$70 000)	<u>(99 500)</u>	35 700	0.5
<u>Current Liabilities</u>			
Trade payables	135 000		0.5
Accrued sundry expenses	<u>2 180</u>	<u>137 180</u>	0.5
		<u>172 880</u>	(7)

**QUESTION 7 (Cont'd)****Marks**

- (b)
- normal loss is an expected loss arising from normal purchases or production activities
  - abnormal loss is an unexpected loss in the operation of a business
  - the loss caused to Mark's business by the fire is an abnormal loss

1

1

1

(3)

---

**20 marks**

---

# QUESTION 8

Marks

(a)

Capital								
2016	Bill	Ben	Tom	2016	Bill	Ben	Tom	
	\$	\$	\$		\$	\$	\$	
0.5 Goodwill			48 000	Balance b/d	162 000	466 000		
0.5 Loan – Bill	252 500			Cash at bank			240 000	0.5
1 Balance c/d		563 500	192 000	Current	42 000			0.5
				Revaluation (w1)	24 500	73 500		2
				Goodwill	24 000	24 000		1
	<u>252 500</u>	<u>563 500</u>	<u>240 000</u>		<u>252 500</u>	<u>563 500</u>	<u>240 000</u>	

(w1) Gain on revaluation = \$248 000 - (\$120 000 / 0.8) = \$98 000 (6)

(b) (i) Appropriation account for the year ended 31 December 2016

			\$	
Net loss	\$(371 000 + 19 600 + 5050)	(w2)	395 650	1.5
Add:	Salary to Tom (\$2000 x 12)		24 000	1
			<u>419 650</u>	
Share of loss	- Ben (1/2)		209 825	} 0.5
	- Tom (1/2)		209 825	
			<u>419 650</u>	

(w2) Depreciation expense under-provided for = [\$248 000 - (\$120 000/0.8)] x 20% = \$19 600 (3)  
 Loan interest expense = \$252 500 x 2% = \$5050

(b) (ii)

Current								
2016	Ben	Tom		2016	Ben	Tom		
	\$	\$			\$	\$		
0.5 Balance b/d	20 000			Appropriation account – salary		24 000		0.5
0.5 Appropriation account – share of loss	209 825	209 825		Balance c/d	229 825	185 825		0.5
	<u>229 825</u>	<u>209 825</u>			<u>229 825</u>	<u>209 825</u>		

(2)

(c) Items that would be recorded in the current account:

- Drawings
  - Interest on capital
  - Interest on drawings
  - Interest on loan to partner(s)
- (1 mark for each item, max. 2 marks)

(2)



**QUESTION 8 (Cont'd)**

**Marks**

(d)

		Realisation		
		\$		\$
0.5	Equipment (\$248 000 x 0.8)	198 400	Ben's Capital: Equipment	174 000 0.5
0.5	Trade receivables	70 000	Cash at bank - Trade receivables and inventory	96 000 0.5
0.5	Inventory	98 000	Trade payables - discounts received	1 000 0.5
0.5	Cash at bank- realisation expenses	6 000	Interest payable	5 050 0.5
			Share of realisation loss:	
			Capital - Ben (1/2)	48 175
			Capital - Tom (1/2)	48 175
				96 350
		<u>372 400</u>		<u>372 400</u>

(4)

(e)

		Capital				
2017		Ben	Tom	2017		
		\$	\$			
0.5	Current account	229 825	185 825	Balance b/d	563 500	192 000 0.5
0.5	Realisation: Equipment	174 000		Cash at bank		42 000 0.5
0.5	Realisation	48 175	48 175			
0.5	Cash at bank	111 500				
		<u>563 500</u>	<u>234 000</u>		<u>563 500</u>	<u>234 000</u>

(3)

20 marks

**END OF PAPER 2A**