

## 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 the Hong Kong economy is **not** correct?

- A. The Hong Kong Government does not control the inflows and outflows of capital.
- B. Hong Kong is a founding member of the World Trade Organization.
- C. Most businesses in Hong Kong are multinational corporations.
- D. Under the Closer Economic Partnership Arrangement (CEPA), service suppliers in Hong Kong enjoy preferential treatment when setting up business in most service sectors on the Mainland.

2. Which of the following accounts must carry a debit balance in a trial balance?

- A. Rental income
- B. Purchases returns
- C. Discounts received
- D. Loans to employees

3. If the Hang Seng Index (HSI) rose by 10% during the past month, it means that \_\_\_\_\_ during the past month.

- (1) the 'HSI-Commerce & Industry' rose by 10%
- (2) the turnover of the HSI constituent stocks increased by 10%
- (3) the market prices of the HSI constituent stocks rose in general

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

4. 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)	Received interest on bank deposit.	Interest income	Bank
(2)	Purchased stationery for office use on credit.	Stationery expenses	Accounts payable
(3)	The owner brought in his motor van for the firm's use.	Motor van	Drawings

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

5. The following are the tasks required for quality control:

- (1) measure the actual rate of defective items by sampling
- (2) find reasons and take follow up measures if the actual rate of defective items is higher than the acceptable level
- (3) set the acceptable rate of defective items
- (4) compare the actual rate of defective items with the acceptable rate

The sequence of the quality control procedure should be:

- A. (1) → (3) → (2) → (4)
- B. (1) → (4) → (3) → (2)
- C. (3) → (1) → (2) → (4)
- D. (3) → (1) → (4) → (2)

6. Which of the following should be recorded as an expense of a firm?
- (1) wages paid to the part-time workers of the firm in cash
  - (2) insurance paid for owner's private apartment by the firm's cheque
  - (3) rent paid for the firm's warehouse by owner's personal cheque
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
7. Ethical behaviour in business will \_\_\_\_\_.
- (1) enhance the public image of a business
  - (2) increase the operating costs of a business in the long run
  - (3) enable a business to be subject to a lower profits tax rate
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
8. Which of the following should be credited to the purchases account of a firm?
- (1) goods withdrawn by owners for personal use
  - (2) goods returned to a supplier
  - (3) goods donated to a non-profit making organisation
- A. (1) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
9. Which of the following are the main functions of a marketing department of a company?
- (1) plan marketing research
  - (2) formulate pricing strategy for the products
  - (3) control product quality
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
10. Which of the following is/are the example(s) of a real account?
- (1) Sales account
  - (2) Bank loan account
  - (3) Equipment account
- A. (1) only
  - B. (2) only
  - C. (3) only
  - D. (2) and (3) only

11. A trading firm is departmentalised by function. At the beginning of every year, the General Manager and the department managers discuss and formulate the departmental objectives together so as to achieve the overall target of the firm. Regular reviews are conducted by them to see whether the departmental objectives have been achieved as planned.

Based on the above information, which of the following principles of effective management are used by the firm?

- (1) balancing authority and responsibility
  - (2) management by objectives
  - (3) division of work
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
12. On 1 March 2018, the cash at bank account and the cash in hand account of a firm carried debit balances of \$15 000 and \$12 000 respectively. Cash sales for the month were \$13 000, of which \$5 000 was kept in the safe and the remaining cash from sales was deposited into the bank before the month end. During the month, \$9 000 was paid for expenses in cash and \$26 000 was paid to acquire equipment by cheque.
- The cash at bank account carried a \_\_\_\_\_ on 31 March 2018.
- A. credit balance of \$3 000  
B. credit balance of \$6 000  
C. debit balance of \$5 000  
D. debit balance of \$8 000
13. Which of the following statements about a bank overdraft is/are correct?
- (1) There is no fixed repayment schedule.
  - (2) Its interest is usually charged on a monthly basis.
  - (3) Collateral is usually not required.
- A. (1) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
14. For a toy company, which of the following is not regarded as an example of fulfilling its social responsibility?
- A. using recycled materials to produce toys  
B. donating toys to orphanages  
C. offering 20% discount to customers during Christmas  
D. improving the working environment of its employees
15. Mr Lee wants to buy a car 3 years later. Its price is \$500 000 now and is expected to increase by 3% per annum. To pay for the car after 3 years, he is considering investing in a fund with a return of 5% per annum, compounded annually. How much should he invest in the fund now?
- A. \$471 969  
B. \$490 476  
C. \$509 709  
D. \$529 695

16. Which of the following are the advantages of adopting 'management by objectives' by a business?

- (1) enhance the subordinates' job satisfaction
- (2) lower the administrative cost
- (3) reduce work delays

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

17. The following information relates to Mr Chan's firm in 2017:

	\$
Capital, as at 1 January 2017	443 800
Capital, as at 31 December 2017	425 000
Total revenue for the year 2017	97 000
Total expenses for the year 2017	108 500

Based on the above information, Mr Chan \_\_\_\_\_ the firm during the year 2017.

- A. withdrew \$7 300 from
- B. withdrew \$30 300 from
- C. introduced \$7 300 into
- D. introduced \$30 300 into

18. Which of the following statements about the Ocean Park Corporation, a public corporation in Hong Kong, are correct?

- (1) It is listed on the Hong Kong Stock Exchange.
- (2) Its board of directors is appointed by the government.
- (3) It is self-sufficient financially.

- 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 required in the calculation of the net present value of investing in a machine?

- (1) initial cost of the machine
- (2) scrap value of the machine
- (3) useful life of the machine

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

20. Which of the following would increase the gross profit of a trading firm?

- A. decrease in returns outwards
- B. decrease in carriage outwards
- C. increase in trade discounts offered by the supplier
- D. increase in cash discounts offered by the supplier

21. Ming Kee and Chan Kee are trading firms in the same industry. Their financial information for the year 2017 is shown below:

	Ming Kee	Chan Kee
Current assets	\$900 000	\$600 000
Current ratio	6:1	2.5:1
Acid test ratio	2:1	1.5:1

Based on the above information, Ming Kee has \_\_\_\_\_.

- (1) less current liabilities
  - (2) greater ability to meet short-term obligations
  - (3) less inventory
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
22. In the basic listing requirements of the Growth Enterprise Market for new applicants, there is no minimum requirement relating to \_\_\_\_\_.
- A. cash flow  
B. profit  
C. operating history  
D. market capitalisation
23. Which of the following is **not** a function of accounting?
- A. summarising business transactions  
B. monitoring the performance of the accounting staff  
C. communicating the performance of the business to different stakeholders  
D. classifying business transactions
24. Which of the following statements about a partnership is/are correct?
- (1) There is no limited partner in a general partnership.
  - (2) Limited partnership is a legal entity separate from its owners.
  - (3) All partners in a limited partnership only have limited liability.
- A. (1) only  
B. (1) and (2) only  
C. (2) and (3) only  
D. (1), (2) and (3)
25. Which of the following statements about risk and return is correct?
- A. Market risk can be diversified.  
B. High-risk financial products must have high returns.  
C. Risk-averse investors usually prefer investing in bonds to making term deposits.  
D. Conservative retired persons usually prefer investing in bonds to stocks.

26. A car retailer sets the following sales target for its new car model:

**‘50% of Hong Kong drivers will buy our new car model in 2019.’**

Which of the following criteria for setting good objectives is/are fulfilled in this sales target?

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

27. Which of the following statements about ‘authority’ is/are correct?

- (1) An operations manager has staff authority over his/her subordinates.
  - (2) A human resources manager has line authority over the plant manager.
  - (3) An accounting manager has line authority over his/her subordinates.
- A. (2) only  
B. (3) only  
C. (1) and (2) only  
D. (1), (2) and (3)

28. Compared to a public limited company, which of the following is/are the advantage(s) of a private limited company?

- (1) is subject to less government supervision
  - (2) does not need to distribute dividends to shareholders
  - (3) obtains financing more easily
- A. (1) only  
B. (2) only  
C. (3) only  
D. (1) and (2) only

29. Which of the following about an income statement is **not** correct?

- A. Information is mostly quantitative.  
B. Information mainly reflects past events.  
C. Its preparation involves professional judgements.  
D. Its preparation is based on cash receipts and cash payments only.

30. Which of the following statements about the Mandatory Provident Fund (MPF) System is correct?

- A. Self-employed persons aged between 16 and 65 are required to join the MPF Scheme.  
B. Construction workers are exempted from the MPF Scheme.  
C. MPF scheme members can apply for early withdrawal of the accrued benefits from the MPF Scheme if they are unemployed for more than two years.  
D. When changing jobs, MPF scheme members can transfer their accrued benefits to another MPF trustee.

**END OF SECTION A**

**SECTION B (30 marks)**

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

1. Nick Limited is a private limited company, manufacturing and selling electrical appliances locally. Facing international competition, the company is planning to set up an online store to sell worldwide. To lower costs and increase sales, the company is analysing the effects of globalisation in order to formulate new business strategies.

(a) Explain one technological factor and one economic factor that Nick Limited should consider when planning to set up the online store. (4 marks)

(b) Suggest two strategies to Nick Limited that may lower its production cost under globalisation. (4 marks)

(Total: 8 marks)

2. Calvin set up a supermarket selling Korean food. To attract customers and enhance competitiveness, the supermarket continually introduces new products. Some of these cannot be found in big local supermarkets. With its thriving business, the supermarket has been recently selected as an outstanding small and medium enterprise. Calvin has also been praised by the media as an outstanding entrepreneur.

(a) Apart from the number of employees, state two other characteristics of small and medium enterprises. (2 marks)

(b) With reference to the case above, explain two contributions of entrepreneurship to the development of business. (4 marks)

(Total: 6 marks)

3. Darwin Limited is a listed company, running a department store business with five stores of a similar size in Hong Kong.

(a) Ignoring other factors, explain how each of the following two policies may affect the share price of Darwin Limited: (4 marks)

(i) the generous dividend policy of the company

(ii) the mainland government limits the number of visits to Hong Kong per week by its residents

The performance of Darwin Limited was poor during the past few years. In February 2018, the company had to liquidate within six months as it was unable to repay its debts. Therefore, the financial statements as at 31 March 2018 were not prepared based on the going concern assumption.

(b) Explain the going concern assumption. How should the non-current assets of Darwin Limited be valued as at 31 March 2018? (2 marks)

(Total: 6 marks)



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

4. On 1 January 2017, Mandy commenced a sole proprietorship firm to design and sell computer software. The following balances were extracted from the books of the firm as at 31 December 2017:

	\$
Trade receivables	13 000
Motor van	48 000
Bank loan (to be matured in July 2018)	30 000
Sales	220 000
Trade payables	8 000
Purchases	98 000
Equipment	166 000
Operating expenses	105 600
Cash at bank	16 000
Capital, 1 January 2017	?

- (a) On 31 December 2017, the inventory of the firm was valued at \$26 000. Prepare a statement of financial position of Mandy's firm as at 31 December 2017. (5 marks)

The staff of the research and development department in the firm may freely design different computer software products, but the selection of the new product designs is done by Mandy alone, without involving any other staff.

- (b) State the leadership style adopted by Mandy. (1 mark)
- (c) Explain two disadvantages of the leadership style adopted by Mandy. (4 marks)

(Total: 10 marks)

5. On 1 January 2018, the cash at bank account of Vincent's firm carried a debit balance of \$20 000. The following transactions took place in January 2018:

2018

Jan	3	Purchased goods on credit with a list price of \$10 000. The supplier offers a trade discount of 2% for purchase orders over \$5 000 and a cash discount of 3% for settlements within 10 days after purchase.
	7	Repaid the supplier for the purchase made on 3 January 2018 by cheque.
	10	Paid rent by cheque for \$7 000.
	25	Sold goods on credit for \$12 000.

- (a) Prepare the T-accounts in the books of Vincent's firm to record the above transactions. (5 marks)

During the year, Vincent's firm aims to reduce costs. However, the marketing manager wants to launch a large-scale sales promotion campaign. The budgeted cost of the campaign is 50% of last year's sales.

- (b) State the principle of effective management that has been violated in the above case. (1 mark)
- (c) Explain two reasons for adopting the principle of effective management in (b) above. (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 financial year for Mary's business ends on 31 December. The business keeps the following books of original entry: General Journal, Sales Journal, Purchases Journal, Returns Inwards Journal, Returns Outwards Journal and Cash Book.

During December 2017, the following transactions took place:

- (i) Paid rent of \$18 400 by autopay.
- (ii) Bought goods from Amy Company on credit for \$4 200.
- (iii) Returned goods of \$300 to Amy Company.
- (iv) Goods amounting \$560 were taken away by Mary for her personal use.
- (v) Sold goods to Carmen Company on credit for \$1 580.
- (vi) Issued and sent a credit note for goods returned of \$500.
- (vii) Received an electricity bill of \$5 600 for December 2017, which would be settled by cheque in January 2018.
- (viii) Cash sales of \$1 500 to Dick Company.
- (ix) Issued and sent a debit note for goods returned of \$600.
- (x) Bought a motor van on credit for \$17 000.

**REQUIRED:**

- (a) Indicate which of Mary's books of original entry should be used to record transactions (i) to (x) above in December 2017. (5 marks)
- (b) With reference to transaction (iii) above, state the accounts and the corresponding ledgers to be posted from the book of original entry. (2 marks)
- (c) Give one function of keeping books of original entry. (1 mark)

(Total: 8 marks)

2. The cash at bank account of Sonic Company showed a debit balance of \$50 000 as at 31 December 2017 and it did not agree with the balance in the bank statement on that date. The following information relating to the financial year ended 31 December 2017 was available:
- (i) Cheque #245896 for \$33 500 from a customer was dishonoured and returned by the bank. The bookkeeper recorded the amount as \$3 500 when the cheque was returned.
  - (ii) The cash at bank account included a cheque #723958 for \$6 300, dated 3 January 2018, which was a settlement to a supplier.
  - (iii) Cheque #723881 for \$10 390, which was issued to a supplier on 18 July 2017, was recorded in the books, but had not been shown on the bank statements of 2017.
  - (iv) It was found that a cheque #465793 dated 28 April 2017 for \$4 430, which was received from a customer, was still kept in the drawer of the bookkeeper on 31 December 2017. It had been recorded in the cash at bank account upon receipt in May 2017. It is the bank's practice not to honour cheques outstanding for more than six months.
  - (v) Cheque #723912 for \$9 310 had been issued to a supplier on 22 November 2017. The cheque was lost in transit but no entries had been made in respect of its cancellation.
  - (vi) Cheque #325698 for \$4 100 was deposited in the bank and recorded in the books on 29 December 2017, but it had not been credited by the bank on 31 December 2017.

**REQUIRED:**

- (a) For Sonic Company,
  - (i) update the cash at bank account. (4 marks)
  - (ii) write up a bank reconciliation statement as at 31 December 2017. (2 marks)
- (b) What is a post-dated cheque? Indicate the cheque number of the post-dated cheque from the above information. (2 marks)

(Total: 8 marks)

3. Sang Manufacturing Company commenced its business in 2017. It uses the absorption costing system. All finished goods were sold in 2017. The information for the year ended 31 December 2017 is given below:

Sales	\$150 000
Net profit	\$48 000
Prime cost	\$49 920
Direct materials	\$180 per metre, 100 metres are required
Direct expenses	\$7 000
Direct labour cost	?
Manufacturing overheads absorbed	?
Administrative and selling expenses	20% of total manufacturing cost

**REQUIRED:**

- (a) Prepare for Sang Manufacturing Company the income statement for the year ended 31 December 2017 using the absorption costing system. Show separately the components of the prime cost and the manufacturing overheads absorbed. (6 marks)
- (b) Calculate the total amount of conversion cost of year 2017. (1 mark)
- (c) Give one example of a direct expense. (1 mark)

(Total: 8 marks)

**SECTION B (36 marks)**

Answer **ALL** questions in this section.

4. Jay and Joe were in partnership sharing profits and losses in the ratio of 3:2, the balances of their capital accounts as at 1 January 2017 were \$229 000 and \$144 000 respectively. On the same date, Tom was admitted to the partnership with the following arrangements:
- (i) Jay, Joe and Tom would share profits and losses in the ratio of 3:3:4 and Tom would be paid a monthly salary of \$22 000 by cheque at the end of each month.
  - (ii) Goodwill was to be valued at \$80 000. All other assets were to be revalued upwards by \$120 000. The new partnership would not keep a goodwill account.
  - (iii) Interest on drawings of 5% per annum would be charged while interest on capital of 4% per annum would be calculated on the beginning balances of the capital accounts.
  - (iv) Tom had to bring in sufficient funds so that his capital account balance would amount to 40% of the total capital of the new partnership.
  - (v) The new partnership would maintain fixed capital accounts.

**REQUIRED:**

- (a) Prepare the partners' capital accounts in columnar form, showing the admission of Tom. (4 marks)

After a year of operation, the following information was extracted from the books of the new partnership for the year ended 31 December 2017:

	\$
Sales	4 002 600
Cost of goods sold	1 085 400
Operating expenses (including annual salary paid to Tom)	2 412 000
Interest expenses (including the interest on capital)	75 600
Drawings - Jay (withdrawn on 1 May 2017)	180 000
- Joe (withdrawn on 1 July 2017)	120 000

**REQUIRED:**

- (b) Prepare the appropriation account of the partnership for the year ended 31 December 2017. (6 marks)
- (c) Briefly explain whether the balance of Tom's current account as at 31 December 2017 would include the annual salary he was entitled to for 2017. (1 mark)

(Total: 11 marks)

5. The account balances of Rocky Company Limited as at 31 December 2016 and 31 December 2017 are given below:

	2016	2017
	\$	\$
3% Long-term loan	753 800	180 000
5% Short-term loan	--	90 000
Accrued expenses	8 200	15 000
Cash at bank	33 500	128 000
Equipment, net	782 000	663 000
Inventory (31 December)	136 500	364 000
Ordinary share capital	200 000	700 000
Retained profits (31 December)	42 000	158 000
Trade payables	58 000	202 000
Trade receivables	110 000	190 000

Additional information:

- (i) All sales were made on credit and total sales for the year 2017 were \$780 000. Some goods were sent on a sale-or-return basis at a price of \$17 000 in December 2017 and were recorded as credit sales. On 31 December 2017, all these goods were returned by the customer and were included in the closing inventory of the company, but no entries were made in respect of this return.
- (ii) Total purchases for the year 2017 amounted to \$778 050, of which 80% were credit purchases and 20% cash purchases.

**REQUIRED:**

- (a) Calculate (to two decimal places) the following ratios for 2017 (365 days a year):
  - (i) working capital ratio
  - (ii) inventory turnover (in times)
  - (iii) average trade receivables collection period (in days)
  - (iv) average trade payables repayment period (in days)

(8 marks)
- (b) (i) Calculate (to two decimal places) the gearing ratios of Rocky Company Limited for 2016 and 2017.
 

(2 marks)
- (ii) Comment on the solvency of Rocky Company Limited for 2017.
 

(3 marks)

(Total: 13 marks)

6. Yummy Limited is a dim sum restaurant. Its monthly operation details for 2018 are as follows:

Average number of customers per month	35 000
Average sales revenue per customer	\$100
Variable production cost	45% per revenue dollar
Monthly fixed costs:	\$
Rent	350 000
Salary	741 000
Depreciation	81 970
Other operating expenses	316 000

The following changes in costs are expected for 2019:

- increase in variable production cost to 48% per revenue dollar
- increase in monthly rent by 15% when the lease contract is renewed at the beginning of 2019
- increase in salary and other operating expenses by 5%

**REQUIRED:**

- (a) Calculate the monthly margin of safety for Yummy Limited in 2019 (in sales dollars). (4 marks)

The Hong Kong Government has invited investors to join the Food Truck Pilot Scheme. The trial period is two years. Yummy Limited has idle capacity and is considering joining this project in 2019. It has estimated the costs and revenues related to the project as follows:

- (i) The cost of a new truck is \$1 000 000, with an estimated residual value of \$300 000 at the end of 2020.
- (ii) Equip the truck with refrigerators, air-conditioning and new cooking facilities at a cost of \$604 000.
- (iii) Annual fixed costs include salary of \$600 000 and other costs (excluding depreciation) of \$528 000. A set of idled cooking stoves of the restaurant with a net book value of \$20 000 as at 1 January 2019 will be installed in the food truck.
- (iv) The variable production cost of the dim sum sold by both the restaurant and the food truck will be 48% per revenue dollar during the two-year trial period.
- (v) It is estimated that the project would bring in monthly revenues as follows:
  - sales revenue of the food truck: average sales revenue per customer \$80, with a total of 3 000 customers
  - sales revenue of the restaurant: attract additional 1 500 customers, average sales revenue of \$100 per customer

**REQUIRED:**

- (b) (i) Prepare for Yummy Limited a statement to calculate the incremental revenues and incremental costs for the whole project. (5 marks)
- (ii) Based on the calculation in (b)(i), briefly explain whether Yummy Limited should join the Food Truck Pilot Scheme. (1 mark)
- (c) Define 'sunk cost'. Identify one example of a sunk cost for Yummy Limited in respect of the food truck project. (2 marks)

(Total: 12 marks)



## SECTION C (20 marks)

Answer **ONE** question in this section.

7. The following are the balances extracted from the books of KK Company Limited as at 31 December 2017:

	\$
Equipment	2 020 000
Accumulated depreciation - Equipment, 1 January 2017	1 060 000
Inventory, 1 January 2017	930 000
Sales	4 470 000
Returns inwards	60 000
Purchases	2 467 000
Operating expenses	757 000
General reserve	20 000
4% Debenture (Issued on 1 July 2017)	800 000
Retained profits, 1 January 2017	74 000

Additional information:

- (i) In 2017, all sales were made at a mark-up of 50%.
- (ii) On 1 May 2017, a piece of old equipment was traded in for a new model which cost \$62 000, at a trade-in value of \$21 000. The old equipment was purchased on 1 March 2015 at a cost of \$50 000. The bookkeeper debited \$62 000 in the equipment account and credited the same amount in the cash at bank account without making any other entries for the above trade-in arrangement.

Besides, another piece of equipment which was purchased for \$250 000 in 2012 was still in use during 2017.

It is the company's policy to charge depreciation on equipment at a rate of 20% per annum on a straight-line basis. A full year's depreciation on equipment is to be charged in the year of purchase but none in the year of disposal.

- (iii) On 29 December 2017, the company received a purchase order from a customer for goods priced at \$270 000. The bookkeeper recorded the order as credit sales for the year 2017, though the goods were to be delivered to the customer on 4 January 2018.
- (iv) Operating expenses of \$757 000 were paid during the year 2017, of which 45% were selling and distribution expenses while the rest were administrative expenses. Depreciation expenses, loss on disposal and directors' fees are classified as administrative expenses.
- (v) Estimated profits tax of \$12 500 for the year 2017 had not been recorded in the books. Besides, directors' fees of \$130 000 for the year 2017 were to be paid in 2018.
- (vi) On 31 December 2017, the board of directors resolved to increase the general reserve to \$30 000.
- (vii) Information on dividends for the years 2016 and 2017 is as follows:

Details	Declared and paid	\$
2016 Final dividend	March 2017	48 000
2017 Interim dividend	September 2017	23 000
2017 Final dividend	March 2018	42 000

**REQUIRED:**

- (a) Prepare for KK Company Limited,
- (i) the income statement for the year ended 31 December 2017, showing all the necessary items including purchases, profit before tax and profit after tax. (10 marks)
  - (ii) a statement to calculate the retained profits as at 31 December 2017. (3 marks)
- (b) Briefly explain, with a relevant accounting principle or concept, the accounting treatment of item (iii) above. (3 marks)

Having prepared the income statement, the directors of KK Company Limited have the following queries:

- Director Ma: I was told that the depreciation policy could not be changed, otherwise the consistency principle would be violated. Is that right?
- Director Lo: The balance of the general reserve has been increasing over the past few years. Will this affect our ability to pay dividends?

**REQUIRED:**

- (c) With reference to Director Ma's query, state two reasons for adopting the consistency principle when preparing the financial statements. (2 marks)
- (d) With reference to Director Lo's query, explain whether the increase in the balance of the general reserve would affect the company's ability to pay dividends. (2 marks)

(Total: 20 marks)

8.

- (A) After the preparation of the income statement for the year ended 31 December 2017, Bright Company Limited had the following account balances:

	Dr \$	Cr \$
Retained profits, 31 December 2017		777 060
Share capital		1 800 000
Trade payables		507 700
Accrued expenses		62 700
Motor vehicles, net	2 017 100	
Trade receivables, net	294 000	
Cash at bank	447 400	
Inventory	403 040	
Suspense (note iv)		14 080
	<u>3 161 540</u>	<u>3 161 540</u>

Additional information:

- (i) Bad debts of \$9 700 had not been recorded in the books.
- (ii) The allowance for doubtful accounts, which had been provided at 2% on trade receivables, would be increased to 3% after a review of the economic environment.
- (iii) On 31 December 2017, an invoice for a staff training programme of \$80 000 for ten lessons was received and the amount was to be settled in January 2018. The first four lessons were conducted in December 2017 while the remaining six lessons would be conducted in January 2018. No entries were made in the books to record the above.
- (iv) The balance of the suspense account related to an advance payment of management fees for January 2018. The bookkeeper wrongly debited the same amount both to the cash at bank account and the management fees account in 2017.
- (v) A motor vehicle, which was purchased for \$150 000 in 2013, was damaged in a traffic accident and then sold for \$50 000 in December 2017. No entries were made in the books regarding the disposal except that the amount received was recorded as a cash sale.

It is the company's policy to charge depreciation on motor vehicles at a rate of 20% per annum on a reducing-balance basis. A full year's depreciation on motor vehicles is to be charged in the year of purchase but none in the year of disposal.

#### REQUIRED:

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (8 marks)
- (b) Prepare for Bright Company Limited the statement of financial position as at 31 December 2017. (8 marks)

- (B) Fancy Limited will start manufacturing three products, Product A, Product B and Product C in June 2018. The monthly full capacity is estimated at 20 000 direct labour hours. In April 2018, Fancy Limited signed a non-cancellable sales contract with a customer to deliver 1 000 units of Product A in June 2018. This sales contract has been included in the sales forecasts of June 2018.

The sales forecasts and cost information for June 2018 are as follows:

	<b>Product A</b>	<b>Product B</b>	<b>Product C</b>
Sales forecasts	1 400 units	1 200 units	1 600 units
Unit price	\$220	\$660	\$480
Raw material price per kg	\$60	\$80	\$70
Raw material usage per unit	0.5 kg	0.5 kg	0.5 kg
Direct labour hours per unit	3 hours	8 hours	5 hours
Wage rate per hour	\$40	\$40	\$40
Variable overheads per unit	\$10	\$10	\$10

**REQUIRED:**

To maximise the total contributions of Fancy Limited at its full capacity, calculate the production quantity for each of the three products in June 2018. (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.

### 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, only the first two should be marked.
4. The general guidelines for answers which are awarded 0 to 3 marks each are as follows:
  - 0 marks : irrelevant or ambiguous answer
  - 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 (47%)	16.	B (64%)
2.	D (54%)	17.	A (68%)
3.	C (64%)	18.	C (41%)
4.	B (74%)	19.	D (66%)
5.	D (89%)	20.	C (48%)
6.	B (77%)	21.	A (78%)
7.	A (93%)	22.	B (30%)
8.	B (33%)	23.	B (88%)
9.	A (81%)	24.	A (48%)
10.	D (58%)	25.	D (55%)
11.	C (49%)	26.	C (74%)
12.	A (74%)	27.	B (60%)
13.	B (30%)	28.	A (61%)
14.	C (79%)	29.	D (68%)
15.	A (74%)	30.	D (61%)

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

## SECTION B PART 1

### QUESTION 1

Marks

- (a) Technological factors: payment platform/network security/internet coverage  
(2 marks for each relevant factor, max. 2 marks)

2

Economic factors: exchange rate/income level/trade barriers  
(2 marks for each relevant factor, max. 2 marks)

2

- (b) Strategies:  
 – global sourcing  
 – outsourcing of production processes  
 – technology transfer/enhancement of production processes  
 (2 marks for each relevant strategy, max. 4 marks)

4

8 marks

### QUESTION 2

Marks

- (a) Characteristics:  
 – managed by owner  
 – limited capital  
 – mainly local operations  
 (1 mark for each relevant characteristic, max. 2 marks)

2

- (b) Contributions:  
 – promote innovations (new products/new markets)  
 – promote market competition/provide more high-quality products or services to consumers  
 (2 marks for each relevant contribution, max. 4 marks)

4

6 marks

### QUESTION 3

Marks

- (a) (i) Generous dividend policy:  
 – shareholders could have higher returns/are more optimistic regarding the prospects of the company. This would attract more people to buy the company shares, which would lead to an increase in the share price

2

- (ii) Limit the number of visits to Hong Kong:  
 – sales to visitors will be reduced, the profitability of the company will be lowered, shareholders will sell the shares of the company which will lead to a drop in the share price

2

- (b) – Going concern assumption: assumes that an entity will continue its operation in the foreseeable future, the entity has neither the intention nor the need to liquidate or reduce its scale of operations significantly

1

- The non-current assets should be valued at their liquidation value/net realisable value.

1

6 marks

**PART 2**  
**QUESTION 4**

**Marks**

(a)

Mandy Statement of financial position as at 31 December 2017			
	\$	\$	\$
<b>Non-current assets</b>			
Equipment			166 000
Motor van			48 000
			<u>214 000</u>
<b>Current assets</b>			
Inventory		26 000	
Trade receivables		13 000	
Cash at bank		16 000	
		<u>55 000</u>	
<b>Less: Current Liabilities</b>			
Bank loan	30 000		
Trade payables	8 000	38 000	17 000
			<u>231 000</u>
<b>Financed by</b>			
Capital, as at 1 January 2017 (Balancing figure)			188 600
Add: Net profit (\$220 000 – (\$98 000 – \$26 000) – \$105 600)			42 400
			<u>231 000</u>

(b) Autocratic leadership

1

- (c) Disadvantages:
- employees' job satisfaction and commitment would be lowered/greater resistance from employees
  - Mandy has a heavier workload/quality of decision-making depends on Mandy's capabilities
- (2 marks for each relevant disadvantage, max. 4 marks)

2.4

10 marks

QUESTION 5

Marks

(a)

Cash at bank					
2018		\$	2018		\$
Jan 1	Balance b/d	20 000	Jan 7	Trade payables	9 506
			Jan 10	Rent	7 000
Purchases					
2018		\$			\$
0.5 Jan 3	Trade payables	9 800			
Trade payables					
2018		\$	2018		\$
0.5 Jan 7	Cash at bank	9 506	Jan 3	Purchases	9 800
0.5 Jan 7	Discounts received	294			
Discounts received					
			2018		\$
			Jan 7	Trade payables	294
Rent					
2018		\$			\$
0.5 Jan 10	Cash at bank	7 000			
Sales					
		\$	2018		\$
			Jan 25	Trade receivables	12 000
Trade receivables					
2018		\$			\$
0.5 Jan 25	Sales	12 000			

(5)

(b) Unity of direction

1

(c) Reasons:

4

- create coherence among employees to achieve the same objectives
- avoid management confusions/conflicts among different departments
- help to build up team spirit

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

10 marks

END OF PAPER 1



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

**SECTION A**

**QUESTION 1**

**Marks**

- (a) (i) Cash Book  
(ii) Purchases Journal  
(iii) Returns Outwards Journal  
(iv) General Journal  
(v) Sales Journal  
(vi) Returns Inwards Journal  
(vii) General Journal  
(viii) Cash Book  
(ix) Returns Outwards Journal  
(x) General Journal  
(0.5 mark for each answer, max. 5 marks)

5

- (b) Amy Company account in Purchases Ledger  
Returns outwards account in General Ledger

1

1

- (c) - segregation of duties which could reduce frauds  
- classification of the transactions so as to facilitate the postings to the ledger accounts  
(1 mark for each relevant function, max. 1 mark)

1

8 marks

**QUESTION 2**

**Marks**

- (a) (i)

		Cash at bank			
		2017	\$	2017	\$
0.5	Balance b/d		50 000	Trade receivables (i)	30 000
0.5	Trade payables	(ii)	6 300	Trade receivables (iv)	4 430
1	Trade payables	(v)	9 310	Balance c/d	31 180
			<u>65 610</u>		<u>65 610</u>

(4)

- (ii)

		Bank reconciliation statement as at 31 December 2017			
			\$		
Adjusted balance as per cash book			31 180		0.5
Add:	Unpresented cheque - 723881 (iii)		10 390		0.5
			<u>41 570</u>		
Less:	Uncredited cheque (vi)		4 100		0.5
Balance as per bank statement			<u>37 470</u>		0.5
					(2)

- (b) - a cheque dated with a future date  
- Cheque #723958

1

1

(2)

8 marks

QUESTION 3

Marks

(a)

Sang Manufacturing Company  
Income statement for the year ended 31 December 2017

		\$	
Sales		150 000	0.5
<u>Less: Cost of goods sold</u>			
Direct material costs	18 000		0.5
Direct labour costs (Balancing figure)	24 920		1
Direct expenses	7 000		0.5
Prime costs	49 920		0.5
Manufacturing overheads absorbed (Balancing figure)	35 080		1
Total manufacturing costs (\$150 000 - \$48 000)/1.2		85 000	0.5
Gross Profit		65 000	0.5
Less: Administrative and selling expenses (\$85 000 x 0.2)		17 000	0.5
Net profit		48 000	0.5
			(6)

(b) Total conversion cost: (\$85 000 - \$18 000) or (\$24 920 + \$7 000 + \$35 080) = \$67 000 (1)

(c) Royalties/depreciation on non-current assets acquired specifically for the production of a product (1)

8 marks

# SECTION B

## QUESTION 4

Marks

(a)

				Capital							
				Jay	Joe	Tom					
				\$	\$	\$	Jay	Joe	Tom		
							\$	\$	\$		
0.5	Goodwill			24 000	24 000	32 000	Balance b/d	229 000	144 000	0.5	
0.5	Balance c/d (w1)			325 000	200 000	350 000	Goodwill	48 000	32 000	0.5	
							Revaluation	72 000	48 000	1	
							Bank/Cash			382 000	1
				<u>349 000</u>	<u>224 000</u>	<u>382 000</u>		<u>349 000</u>	<u>224 000</u>	<u>382 000</u>	

$$(w1) [(\$325\,000 + \$200\,000) / 60\%] \times 40\% = \$350\,000$$

(4)

(b)

Appropriation account for the year ended 31 December 2017						\$	\$	
Net profit for the year (w2)							728 600	2
Add:	Interest on drawings	- Jay	$(\$180\,000 \times 5\% \times 8/12)$		6 000			0.5
		- Joe	$(\$120\,000 \times 5\% \times 6/12)$		<u>3 000</u>	<u>9 000</u>		0.5
							737 600	
Less:	Interest on capital	- Jay	$(\$325\,000 \times 4\%)$		13 000			0.5
		- Joe	$(\$200\,000 \times 4\%)$		8 000			0.5
		- Tom	$(\$350\,000 \times 4\%)$		<u>14 000</u>	<u>35 000</u>		0.5
							702 600	
Less:	Salaries to partner	- Tom	$(\$22\,000 \times 12)$			<u>264 000</u>		0.5
							<u>438 600</u>	
Share of profits:								
- Jay	(3/10)					131 580	}	1
- Joe	(3/10)					131 580		
- Tom	(4/10)					<u>175 440</u>		
							438 600	

$$(w2) \$4\,002\,600 - \$1\,085\,400 - (\$2\,412\,000 - \$264\,000) - (\$75\,600 - \$35\,000) = \$728\,600$$

(6)

- (c) As Tom's salary has been paid at the end of each month, there is no outstanding salary owing to him and so it will not be included in the balance of his current account. (1)

11 marks

# QUESTION 5

Marks

(a) (i) Working capital ratio

$$2017: \frac{\$364\,000 + (\$190\,000 - \$17\,000) + \$128\,000}{\$202\,000 + \$15\,000 + \$90\,000} = \frac{\$665\,000}{\$307\,000} = 2.17:1 \quad 2$$

(ii) Inventory turnover

$$2017: \frac{\$136\,500 + \$778\,050 - \$364\,000}{(\$136\,500 + \$364\,000) / 2} = \frac{\$550\,550}{\$250\,250} = 2.20 \text{ times} \quad 2$$

(iii) Average trade receivables collection period

$$2017: \frac{(\$110\,000 + \$190\,000 - \$17\,000) / 2}{\$780\,000 - \$17\,000} \times 365 = \frac{\$141\,500}{\$763\,000} \times 365 = 67.69 \text{ days} \quad 2$$

(iv) Average trade payables repayment period

$$2017: \frac{(\$58\,000 + \$202\,000) / 2}{\$778\,050 \times 80\%} \times 365 = \frac{\$130\,000}{\$622\,440} \times 365 = 76.23 \text{ days} \quad 2$$

(8)

(b) (i) Gearing ratio

$$2017: \frac{\$180\,000}{\$180\,000 + \$700\,000 + (\$158\,000 - \$17\,000)} \times 100\% = \frac{\$180\,000}{\$1\,021\,000} \times 100\% = 17.63\% \quad 1$$

$$2016: \frac{\$753\,800}{(\$753\,800 + \$200\,000 + \$42\,000)} \times 100\% = \frac{\$753\,800}{\$995\,800} \times 100\% = 75.70\% \quad 1$$

(2)

(ii) Comment:

- the solvency has improved in 2017 1
  - the company issued ordinary share capital during 2017 2
  - the company repaid a large portion of long term loan during 2017 (3)
- (1 mark for each relevant comment, max. 2 marks)

13 marks

# QUESTION 6

Marks

(a)	Fixed cost:	\$	
	- Rent (\$350 000 x 1.15)	402 500	
	- Salary and other operating expenses (\$741 000 + \$316 000) x 1.05	1 109 850	
	- Depreciation	81 970	
		<u>1 594 320</u>	

2

Breakeven point (sales dollars) = \$1 594 320 / (1 - 48%) = \$3 066 000

0.5

Monthly margin of safety = \$3 500 000 - \$3 066 000 = \$434 000

1.5

(4)

(b) (i) Statement to calculate incremental revenues and incremental costs

	\$	
<u>Incremental revenues</u>		
- Food truck (\$80 x 3 000 x 24)	5 760 000	0.5
- Restaurant (\$100 x 1 500 x 24)	<u>3 600 000</u>	0.5
	<u>9 360 000</u>	
<u>Incremental costs</u>		
- Variable production cost (\$9 360 000 x 48%)	4 492 800	1
- Fixed cost:		
Cost of new truck (\$1 000 000 - \$300 000)	700 000	1
Cost of equipment	604 000	0.5
Salary (\$600 000 x 2)	1 200 000	0.5
Other costs (\$528 000 x 2)	<u>1 056 000</u>	0.5
	<u>8 052 800</u>	(5)

(ii) As there are incremental profits of \$1 307 200 brought in by the food truck project, Yummy Limited should join the Food Truck Pilot Scheme.

1

(c) Sunk cost:  
- Cost incurred by a decision made in the past. It cannot be changed and will not affect future decisions.

1

Example: net book value of the idled cooking stove

1  
(2)

12 marks

# SECTION C

## QUESTION 7

Marks

(a) (i)

### KK Company Limited

#### Income statement for the year ended 31 December 2017

	\$	\$	
Sales (\$4 470 000 - \$270 000)		4 200 000	1
Less: Returns inwards		60 000	0.5
		4 140 000	
Less: <u>Cost of goods sold</u>			
Opening inventory	930 000		0.5
Add: Purchases	2 467 000		0.5
	3 397 000		
Less: Closing inventory (Balancing figure)	637 000		0.5
		2 760 000	
Gross profit (\$4 140 000 x 1/3)		1 380 000	1
Less: <u>Expenses</u>			
Administrative expenses (Workings)	899 350		3.5
Selling and distribution expenses (\$757 000 x 45%)	340 650		0.5
Debenture interest (\$800 000 x 4% x 6/12)	16 000		1
		1 256 000	
Profit before tax		124 000	0.5
Less: Profits tax		12 500	0.5
Profit after tax		<u>111 500</u>	(10)

#### Workings

$$(\$757\,000 \times 55\%) + \$344\,000 + \$9\,000 + \$130\,000 = \$899\,350$$

$$\text{Depreciation expenses} = (\$2\,020\,000 - \$250\,000 - \$50\,000) \times 20\% = \$344\,000$$

$$\text{Loss on disposal: } [\$50\,000 - (\$50\,000 \times 20\% \times 2) - \$21\,000] = \$9\,000$$

(ii)

#### Statement to calculate the retained profits as at 31 December 2017

	\$	\$	
Profit after tax		111 500	0.5
Add: Retained profits, 1 January 2017		74 000	0.5
		185 500	
Less: Transfer to general reserve	10 000		0.5
2016 Final dividend	48 000		1
2017 Interim dividend	23 000	81 000	0.5
Retained profits, 31 December 2017		<u>104 500</u>	(3)

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

- (b) - realisation principle 1  
- revenue should be recognised only when goods are dispatched and accepted by the customers, or after the services have been provided 1  
- as the goods were to be delivered to the customers on 4 January 2018, the sales revenue should be recognised in 2018 1  
(3)
- (c) Reasons: 1  
- facilitates intra-period and inter-company comparison of the performance of the business 1  
- avoids manipulation of profit by changing the accounting policy 1  
(2)
- (d) The ability to pay a dividend would not be affected because:  
- the company's ability to pay dividends depends on the availability of retained profits and cash  
- retained profits transferred to the general reserve are still available for distribution of dividends  
(1 mark for each relevant reason, max. 2 marks) (2)

---

**20 marks**

**QUESTION 8**

**Marks**

**(A)**

(a) The Journal		Dr	Cr	
		\$	\$	
(i)	Retained profits	9 700		0.5
	Trade receivables		9 700	0.5
(ii)	Retained profits	2 709		0.5
	(\$294 000 / 0.98 - \$9 700) x 3% - (\$294 000 / 0.98) x 2%			
	Allowance for doubtful accounts		2 709	0.5
(iii)	Retained profits	32 000		0.5
	Accrued expenses		32 000	0.5
(iv)	Prepaid expenses	7 040		0.5
	Suspense	14 080		0.5
	Cash at bank		14 080	0.5
	Retained profits		7 040	0.5
(v)	Retained profits - Sales	50 000		0.5
	Accumulated depreciation - Motor vehicles (\$88 560 + \$12 288)	100 848		1
	Retained profits - Loss on disposal	11 440		0.5
	Motor vehicles		150 000	0.5
	Retained profits - Depreciation		12 288	0.5
<b>OR</b>				
	Retained profits (\$50 000 + \$11 440 - \$12 288)	49 152		1.5
	Accumulated depreciation - motor vehicles (\$88 560 + \$12 288)	100 848		1
	Motor vehicles		150 000	0.5
				(8)

Workings:

Net book value of motor vehicles on 1 January 2017 = \$150 000 x 0.8<sup>4</sup> = \$61 440

Accumulated depreciation - Motor vehicles on 1 January 2017

= \$150 000 - \$61 440 = \$88 560 (2013 to 2016)

Depreciation overcharged in 2017 = \$61 440 x 20% = \$12 288

Loss on disposal = \$61 440 - \$50 000 = \$11 440



QUESTION 8 (con'd)

Marks

(b)

Bright Company Limited  
Statement of financial position as at 31 December 2017

	\$	\$	
<b>Assets</b>			
<u>Non-current assets</u>			
Motor vehicles, net (\$2 017 100 - \$150 000 + \$100 848)		1 967 948	1
<u>Current assets</u>			
Inventory		403 040	0.5
Trade receivables, net (\$294 000 - \$9 700 - \$2 709)		281 591	1
Prepaid expenses		7 040	0.5
Cash at bank (\$447 400 - \$14 080)		433 320	1
		<u>1 124 991</u>	
Total assets		<u>3 092 939</u>	
<b>Equity and liabilities</b>			
<u>Equity</u>			
Share capital		1 800 000	0.5
Retained profits (Workings)		690 539	2
		<u>2 490 539</u>	
<u>Current liabilities</u>			
Trade payables		507 700	0.5
Accrued expenses (\$62 700 + \$32 000)		94 700	1
		<u>602 400</u>	
Total equity and liabilities		<u>3 092 939</u>	(8)

Workings:

Statement to calculate the adjusted retained profit as at 31 December 2017

	\$
Retained profits before adjustment	777 060
Add: Management fee overstated	7 040
Depreciation overcharged	12 288
	<u>796 388</u>
Less: Bad debts	9 700
Increase in allowance for doubtful accounts	
(\$294 000/0.98 - \$9 700) x 3% - (\$294 000 / 0.98) x 2%	2 709
Staff training costs omitted	32 000
Sales overstated	50 000
Loss on disposal of motor vehicle	11 440
Adjusted retained profits	<u>690 539</u>

**QUESTION 8 (con'd)**

**Marks**

**(B)**

	Product A	Product B	Product C	
	\$	\$	\$	
Price	220	660	480	
Direct materials	30	40	35	
Direct labour	120	320	200	
Variable overheads	10	10	10	
Contribution per unit	60	290	235	
Direct labour hours per unit	3 hours	8 hours	5 hours	
Contribution per direct labour hour	\$20	\$36.25	\$47	2
Production priority	3rd	2nd	1st	

	Direct labour hours required	Production quantity	
Product A (with contract signed)	3 000	1 000	0.5
Direct labour hours left (20 000 - 3 000) = 17 000			
Product C	8 000	1 600	0.5
Product B [ (17 000 - 8 000)/8 ]	<u>9 000</u>	1 125	1
	20 000		(4)

20 marks

**End of Paper 2A**