

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

8:30 am – 9:45 am (1 hour 15 minutes)

This paper must be answered in English

GENERAL INSTRUCTIONS

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

INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)

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

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

SECTION A (60 marks)

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

1. Which of the following is/are difference(s) between a sole proprietorship and a general partnership?

		<u>Sole proprietorship</u>	<u>General partnership</u>
(1)	decision-making process	shorter	longer
(2)	profits tax rate	lower	higher
(3)	liability borne	unlimited	limited
A.	(1) only		
B.	(1) and (2) only		
C.	(2) and (3) only		
D.	(1), (2) and (3)		

2. According to accounting assumptions, principles and conventions, which of the following accounting treatments is correct?

- A. A sole proprietor records his own rental expenses in the books of the firm.
- B. Mr Chan owns three firms. He keeps separate accounting records for each firm.
- C. All assets are valued at current market price if a business is expected to cease operating in the following month.
- D. Once an accounting method has been adopted, the method should not be changed unless the new method leads to a higher profit.

3. Which of the following statements about 'management by objectives' are correct?

- (1) It can enhance staff morale.
- (2) It can facilitate communication between superiors and subordinates.
- (3) It allows superiors to focus on more important tasks.
- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

4. The following account was extracted from the books of Lee's firm:

Mr Au					
2018		\$	2018		\$
Oct 14	Cash	22 000	Oct 1	Balance b/d	10 000
Oct 31	Balance c/d	44 000	Oct 5	Purchases	56 000
		<u>66 000</u>			<u>66 000</u>

Based on the information in the above account, which of the following statements is **not** correct?

- A. Lee's firm owed Mr Au \$10 000 on 1 October 2018.
- B. Mr Au sold goods for \$56 000 on credit to Lee's firm on 5 October 2018.
- C. Lee's firm received \$22 000 in cash from Mr Au on 14 October 2018.
- D. The account has a credit balance as at 31 October 2018.

5. Which of the following descriptions about the Hong Kong economy is/are correct?

- (1) a sales tax is imposed on the retailing of goods
- (2) most of the working population are in the tertiary sector
- (3) the main destination of exported goods is the Mainland

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

6. A firm acquired a set of equipment with a list price of \$200 000. The owner paid \$50 000 by personal cheque and the remaining amount was to be settled later on. Which of the following are the effects of this transaction on the accounting equation?

	<u>Assets</u>	<u>Capital</u>	<u>Liabilities</u>
A.	increase	increases	decrease
B.	increase	increases	increase
C.	increase	decreases	increase
D.	decrease	unchanged	decrease

7. A company is going to launch a new product in the market. Its Finance Manager is responsible for _____.

- (1) setting the price of the new product
- (2) seeking funds to launch the new product
- (3) preparing budgets for the new product

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

8. Paul has taken out a 3-year personal loan of \$100 000 at an annual interest rate of 12%, compounded monthly. Which of the following statements is/are correct?

- (1) The annual nominal interest rate of the loan is 12%.
- (2) The annual effective interest rate of the loan is higher than 12%.
- (3) In general, the interest rate for a personal loan is lower than that for a credit card.

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

9. Which of the following statements about business ethics is/are correct?

- (1) Business actions that are legally acceptable may be unethical.
- (2) A 'code of ethics' is compiled by the government for businesses.
- (3) Business ethics are a set of clearly-defined moral principles and standards that a business should follow.

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

10. On 31 December 2018, the quick ratio of a firm was 0.8:1. On that date, the account balances of the firm were as follows:

	\$
Inventory	6 000
Bank loan (repayable in April 2019)	10 000
Cash	30 000
Trade payables	50 000

Based on the above information, calculate the amount of trade receivables as at 31 December 2018.

- A. \$4 000
B. \$10 000
C. \$12 000
D. \$18 000
11. Which of the following statements about joint ventures is/are correct?
- (1) The business risk is shared by the joint venture partners.
(2) The joint venture will normally be dissolved when the joint project is completed.
(3) A joint venture is a new business entity formed by at least two businesses.
- A. (1) only
B. (1) and (2) only
C. (2) and (3) only
D. (1), (2) and (3)
12. Which of the following will decrease the total amount of current liabilities of a business?
- (1) some unpaid goods are returned to the supplier
(2) trade payables are repaid using a bank overdraft facility
(3) a 6-month loan is repaid by taking out a 3-year bank loan
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
13. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong is/are correct?
- (1) The number of employees accounts for around 80% of total employment (excluding civil service) in Hong Kong.
(2) They can operate as a limited company.
(3) The annual sales revenue of a SME must be below \$5 million.
- A. (1) only
B. (2) only
C. (1) and (3) only
D. (2) and (3) only
14. For a sole proprietorship selling office equipment, which of the following about its statement of financial position is correct?
- A. Office equipment held for sale should be classified as a current asset.
B. The statement shows details of the transactions made during the year.
C. The statement shows the balances of the nominal accounts and real accounts of the firm.
D. Working capital is the difference between non-current assets and non-current liabilities.

15. Which of the following statements about the basic requirements for new applicants of listing on the Main Board is/are correct?

- (1) Applicants must fulfil the requirement in operating history.
- (2) Applicants must be multinational corporations.
- (3) Applicants must meet one of the following criteria: the profit test, the market capitalisation/revenue test, or the market capitalisation/revenue/cash flow test.

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

16. A firm was set up in January 2018. The following account balances were extracted from its books as at 31 December 2018:

	\$
Sales	154 000
Purchases	51 000
Carriage outwards	2 500
Carriage inwards	4 700
Salaries	31 000

The inventory as at 31 December 2018 amounted to \$7 200. The gross profit for the year ended 31 December 2018 was _____.

- A. \$72 000
- B. \$105 500
- C. \$107 700
- D. \$114 900

17. Which of the following is/are regarded as example(s) of a hotel fulfilling its social responsibilities?

- (1) allowing clerical staff to work from home when there are adverse weather conditions
- (2) paying the minimum wage to housekeepers
- (3) serving sharks fins if requested by customers

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

18. Tracy, aged 35, set up a dessert shop as a sole proprietor in 2015. Since then, she has employed Betty, aged 30, as a part-time helper at a monthly salary of \$5 000. Which of the following statements about the Mandatory Provident Fund (MPF) Scheme is/are correct?

- (1) Tracy needs to enrol herself into an MPF scheme.
- (2) Tracy needs to enrol Betty into an MPF scheme and make mandatory contributions for her.
- (3) Betty needs to make mandatory contributions to the MPF Scheme.

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

19. Which of the following double entries are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Credit customers returned goods to the firm.	Sales	Trade receivables
(2)	A bank loan was settled by cheque.	Loan from bank	Cash at bank
(3)	A cash refund for the overpayment of motor expenses was received.	Cash	Motor expenses
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 statements about the risks and returns of investments is/are correct?

- (1) Investing in stocks of companies from different industries can diversify firm-specific risk.
 - (2) Making a deposit into a savings account is risk free.
 - (3) Investors can get capital gains and dividends as returns for investing in bonds.
- A. (1) only
 B. (1) and (2) only
 C. (2) and (3) only
 D. (1), (2) and (3)

21. Which of the following statements about entrepreneurs are correct?

- (1) They are willing to take on challenges.
 - (2) They promote economic growth by creating job opportunities.
 - (3) They promote market competition by introducing new products and services.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)

22. Which of the following statements about the World Trade Organization are correct?

- (1) It settles trade disputes among members.
 - (2) It provides forums for trade negotiations among members.
 - (3) It provides financial assistance to developing countries for trade development.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)

23. In the accounting cycle, the next step after posting entries to the ledger accounts is _____.

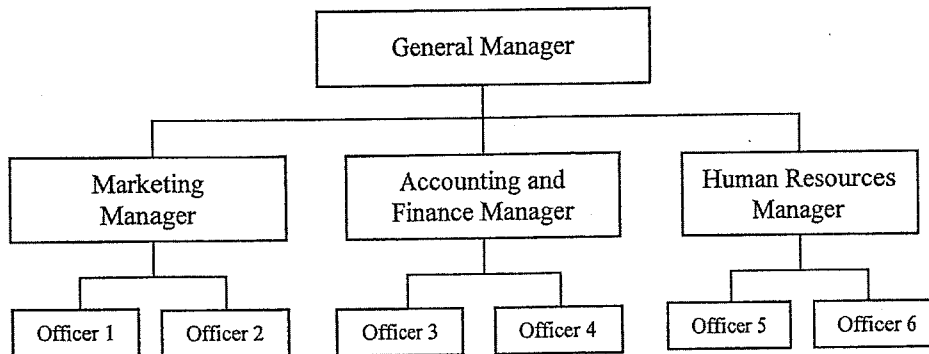
- A. preparing financial statements
 B. recording transactions in the books of original entries
 C. preparing the trial balance
 D. making period-end adjustments

24. Which of the following statements about the Hang Seng Index is correct?
- It is composed of 60 constituent stocks.
 - All of its constituent stocks are listed on the Main Board of the Stock Exchange of Hong Kong.
 - It reflects the performance of the stock market in the Asia-Pacific region.
 - 'Information technology' is one of the four sub-indexes.
25. Which of the following is **not** the main use of financial statements for the respective users?
- | <u>User</u> | <u>Main use</u> |
|---------------|--|
| A. employees | to assess the prospects of the company |
| B. managers | to evaluate the financial performance of the company |
| C. government | to compute the profits tax payable by the company |
| D. customers | to assess the liquidity of the company |
26. Which of the following statements about credit cards are correct?
- They have a pre-approved credit limit.
 - They have a payment due date.
 - There is a monthly minimum payment for the outstanding balance.
- (1) and (2) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)
27. A manager compares the actual performance of the staff with the performance standard. Which of the following management functions does the task belong to?
- leading
 - organising
 - planning
 - controlling
28. The following is a list of the account balances in the trial balance of a firm as at 31 December 2018:
- | | \$ |
|---------------------------|---------|
| Purchases | 74 000 |
| Inventory, 1 January 2018 | 6 200 |
| Cash at bank | 121 500 |
| Loan from bank | 36 700 |
| Office equipment | 15 000 |
| Sales | 123 000 |
| Operating expenses | 28 000 |
| Drawings | 14 700 |
| Capital, 1 January 2018 | ? |
- The firm's capital as at 1 January 2018 was _____.
- \$43 700
 - \$70 300
 - \$99 700
 - \$197 700

29. On 1 April 2019, Yan deposited \$3 000 into a savings plan with an interest rate of 1% per year, compounded annually. If Yan deposits the same amount into the savings plan on 1 April every year, what is the account balance of Yan's savings plan as at 31 March 2022?

A. \$3 091
B. \$9 090
C. \$9 181
D. \$9 273

30. The organisation chart of a company is as follows:



Which of the following statements are correct?

- (1) The company is departmentalised by function.
(2) The span of control of the General Manager is nine.
(3) The General Manager has line authority over the Marketing Manager.

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

END OF SECTION A

SECTION B (30 marks)

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

1. Pizza Deli is a multinational corporation founded in Italy and has branches in London and Sydney. It is considering expanding to Asia by setting up its own branch in Hong Kong. A reputable restaurant chain in Hong Kong invited Pizza Deli to join them as a franchisee.

- (a) Describe the main feature of Pizza Deli as a multinational corporation. (2 marks)
- (b) Explain to Pizza Deli two disadvantages of joining the restaurant chain as a franchisee instead of setting up its own branch. (4 marks)

2. (a) Johnny has just graduated from university. His teacher reminded him to maintain a good personal credit record.

Give two factors which could affect Johnny's personal credit record. Explain how each of the factors would affect his personal credit record. (4 marks)

- (b) In 2019, Johnny established a firm selling cooking utensils in Hong Kong, with the following goal:

'All Hong Kong people will know our brand name by the end of 2020.'

- The above goal is not a SMART goal. Explain two SMART goal characteristics that are not demonstrated by this goal. (4 marks)

3. On 1 December 2018, Chung's firm purchased goods for \$5 000 by cheque.

On 22 December 2018, Chung's firm sold goods to a new customer, Jacky, on credit for \$8 000. A 5% discount would be offered to customers if the settlements were made within 10 days after purchase. Jacky settled the account by cheque on 30 December 2018.

With reference to the accounts listed below,

- Purchases account
- Sales account
- Jacky account
- Cash at bank account
- Discounts received account
- Discounts allowed account

- (a) prepare appropriate T-accounts to record the above transactions for Chung's firm. Balancing off the accounts is not required. (4 marks)

- (b) give one example for each of the following types of ledger account:

(i) real account

(ii) nominal account

(2 marks)

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

Au's firm manufactures and sells garments. The following account balances were extracted from the books of Au's firm as at 31 December 2018:

	\$
Sales	2 300 000
Inventory, 31 December 2018	100 000
Gross profit for the year	1 495 000
Net profit for the year	345 000
Capital, 1 January 2018	1 827 500
Machinery	2 182 500
Cash at bank	140 000
Trade payables	250 000

In 2017, the return on capital employed and the current ratio of Au's firm were 25% and 1.4:1 respectively. In 2018, additional capital was not introduced and there were no drawings.

Refer to the information above, answer Question 4 or Question 5.

4. (a) Calculate the following ratios for 2018 for Au's firm (to two decimal places):
- (i) gross profit ratio (1 mark)
 - (ii) net profit ratio (1 mark)
 - (iii) return on capital employed (2 marks)
- (b) Based on the return on capital employed, briefly comment on the profitability of Au's firm in 2018. (1 mark)

In the production department of Au's firm, the garment manufacturing process involves many tasks, including cutting, sewing and packaging. Each worker is responsible for one task only.

- (c) State the principle of effective management adopted in the production department. (1 mark)
- (d) Explain two advantages for the production department of adopting the principle of effective management in (c) above. (4 marks)
- (Total: 10 marks)

5. (a) Prepare a statement of financial position for Au's firm as at 31 December 2018. (3 marks)
- (b) Based on the current ratio (to two decimal places), briefly comment on the liquidity of Au's firm as at 31 December 2018. (2 marks)

Ken is the accountant at Au's firm. One day, he asked an accounting clerk, Ming, to prepare a cost analysis and report to him in the afternoon. At the same time, the office manager instructed Ming to compile a filing index in that afternoon.

- (c) State the principle of effective management violated in the above case. (1 mark)
- (d) If the principle of effective management in (c) above was adopted, explain two advantages for Au's 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. Fancy Limited's financial information for 2018 and 2017 is as follows:

	2018	
	\$	
Sales (cash sales \$11 600)	298 200	
Cost of sales	210 700	
Operating expenses	43 600	
<u>Balances at 31 December</u>	2018	2017
	\$	\$
Non-current assets, net	144 800	145 300
Inventory	153 500	86 400
Trade receivables	95 300	58 200
Current liabilities	125 900	70 400
Ordinary share capital	70 000	70 000
Retained profits	124 800	80 900
5% long-term bank loan	95 000	95 000
Cash at bank	22 100	26 400

REQUIRED:

Calculate (to two decimal places) the following ratios for 2018:

- (a) inventory turnover (in times)
- (b) trade receivables turnover (in times)
- (c) total assets turnover (in times)
- (d) gearing ratio

(Total: 8 marks)

2. Joey Company's bank statement showed a credit balance of \$300 000 as at 31 December 2018, which did not agree with the balance shown in the cash at bank account on that date. The following were subsequently discovered:
- (i) Interest income of \$2 400 had been credited by the bank but no entries had been made in the books.
 - (ii) The cash at bank account included a debit entry of a post-dated cheque from a credit customer for \$3 900.
 - (iii) A cheque for \$6 300, received from a customer, was shown in the debit column of the bank statement and marked as a 'Returned Cheque'.
 - (iv) An incorrect credit transfer of \$5 200 had been made by the bank on 30 December 2018. Joey Company was informed by the bank that an adjustment would be made in January 2019.
 - (v) A cheque payment of \$48 000 to a supplier had been recorded as a refund from the supplier in the books.
 - (vi) On 31 December 2018, unpresented cheques totalled \$61 700 while deposits made but not yet credited by the bank amounted to \$23 100.

REQUIRED:

- (a) Update the cash at bank account and prepare a bank reconciliation statement as at 31 December 2018. (6 marks)
- (b) Give two reasons why a cheque already deposited would be returned by the bank. (2 marks)

(Total: 8 marks)

3. Dragon Limited manufactures three products: A, B and C. The products' financial information is as follows:

	Product		
	A	B	C
	\$/unit	\$/unit	\$/unit
Selling price	365	390	225
Production costs			
Direct materials	80.5	95.0	45.5
Direct labour	60.5	61.0	40.0
Variable manufacturing overheads	24.0	24.5	20.5
Fixed manufacturing overheads absorbed	55.0	88.0	33.0
Variable selling and administrative expenses	21.5	21.5	21.5

Dragon Limited has a maximum of 20 000 machine hours available each year. The total fixed manufacturing overheads are \$440 000 per year, which are absorbed on the basis of machine hours.

REQUIRED:

- Calculate the contribution margin per unit for products A, B and C respectively. (2 marks)
- Calculate the number of machine hours required to produce each unit of products A, B and C respectively. (2 marks)
- Suppose the projected demand for products A, B and C in the following year is 4 500 units, 2 500 units and 4 300 units respectively. State the production quantity of each product in the following year which will maximise the total contribution of Dragon Limited at its full capacity. Support your answer with calculations. (4 marks)

(Total: 8 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

4. Below is the trial balance of Tracy Limited as at 31 December 2018:

	Dr \$	Cr \$
Ordinary share capital		2 465 000
Equipment	3 360 000	
Accumulated depreciation – equipment, 1 January 2018		1 160 000
Inventory, 1 January 2018	344 000	
Trade receivables and trade payables	136 000	292 000
Cash at bank	409 000	
Purchases and sales	2 130 000	3 254 000
Gain on disposal of short-term investments		134 000
Debenture interest	12 000	
Administrative expenses	408 370	
Selling and distribution expenses	475 750	
Retained profits, 1 January 2018		186 370
4% Debentures		600 000
Short-term investments	816 250	
	<u>8 091 370</u>	<u>8 091 370</u>

Additional information:

- (i) The value of the closing inventory as at 31 December 2018 was \$445 000.
- (ii) During the year, the company paid an insurance premium of \$36 000 for the year ended 31 March 2019. The whole amount was included in administrative expenses.
- (iii) An audit fee of \$10 000 and directors' fees of \$70 800 for 2018 were to be paid in 2019.
- (iv) It is the company's policy to depreciate equipment using the straight-line method based on an estimated useful life of 10 years, and to classify the depreciation expenses, audit fee and directors' fees as administrative expenses.
- (v) The 4% debentures were issued on 1 May 2018 and the maturity date is 30 April 2020. Debenture interest is payable half-yearly on 30 April and 31 October.
- (vi) On 31 December 2018, the board of directors resolved to transfer \$40 000 to general reserve.

REQUIRED:

- (a) Prepare the income statement for the year ended 31 December 2018. (6 marks)
- (b) Prepare the statement of financial position as at 31 December 2018. (7 marks)

(Total: 13 marks)

5. On 1 January 2018, Mr Lee started City Trading Company. He did not keep proper accounting records for his business but the following information relating to the year 2018 is available:

- (i) Information extracted from bank statements for 2018 shows:

	\$	\$
Collection from customers		782 320
Less: Drawings by Mr Lee	30 200	
Payment to suppliers	202 000	
Payment for operating expenses	223 730	
Purchase of equipment	80 000	
Dishonoured cheque	28 610	564 540
Balance as at 31 December 2018		<u>217 780</u>

- (ii) All sales and purchases were made on credit. There were no accounting records for outstanding trade receivables and trade payables. Based on the information confirmed by customers and suppliers, total trade receivables and total trade payables as at 31 December 2018 amounted to \$88 100 and \$101 680 respectively.
- (iii) A cheque for \$28 610, received from a customer, was dishonoured in late December 2018 but the confirmation from the customer had not been updated accordingly.
- (iv) A cheque for \$31 080 issued to a supplier in early December 2018 had neither been presented for payment nor updated by the supplier.
- (v) The residual value of the equipment is \$5 000. Depreciation of 10% per annum is to be provided on equipment using the reducing-balance method. A full year's depreciation is to be provided in the year of acquisition.
- (vi) All goods were sold at a mark-up of 110%. During the year, Mr Lee had taken goods at an invoiced price of \$17 640 for his personal use.

REQUIRED:

- (a) Based on the above information, prepare separate statements to calculate the following items:
- (i) sales for the year 2018 (2 marks)
 - (ii) purchases for the year 2018 (2 marks)
 - (iii) net book value of equipment as at 31 December 2018 (2 marks)
 - (iv) drawings by Mr Lee during 2018 (2 marks)
- (b) With reference to a relevant accounting principle or concept, explain why a business has to provide depreciation for equipment. (3 marks)

(Total: 11 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

7. Ron, Ann and Ben had been in partnership for many years sharing profits and losses in the ratio of 2:2:1. The account balances of the partnership as at 31 December 2018 are as follows:

	\$
Property, net	1 000 000
Equipment, net	360 000
Motor vans, net	574 000
Inventory	283 000
Trade receivables	240 000
Trade payables	88 000
Capital – Ron	1 160 000
– Ann	798 000
– Ben	698 000
Cash at bank	287 000

On 1 January 2019, Ron retired and Carol was admitted into the partnership with the following arrangements:

- (i) The property was to be revalued upwards by \$346 000 while the motor vans were to be revalued at \$390 000.
- (ii) An allowance for doubtful debts of \$42 000 was to be made. A bad debt recovery of \$2 000 would be collected in early 2019.
- (iii) Goodwill was valued at \$180 000 but it was not to be maintained in the books. Adjustments for goodwill between partners were to be made in the capital accounts.
- (iv) \$900 000 of the amount due to Ron would be left as a half-year loan to the partnership, with an annual interest of 10%. The balance was to be paid on his retirement date.
- (v) Carol brought in a piece of equipment valued at \$50 000 together with additional funds so that her capital account would have a balance of \$700 000.
- (vi) The profit-sharing ratio of Ann, Ben and Carol is 3:2:1. Ben is entitled to an annual salary of \$30 000 and Carol is guaranteed a share of profits of not less than \$50 000 per quarter.

REQUIRED:

- (a) Prepare the following to record the retirement of Ron and the admission of Carol:
 - (i) the revaluation account (3 marks)
 - (ii) the partners' capital accounts in columnar form (6 marks)
 - (iii) the statement of financial position for the new partnership as at 1 January 2019 (6 marks)

- (b) Suppose the new partnership's net profit before interest for the quarter ended 31 March 2019 was \$270 000. Prepare the appropriation account of the new partnership for the quarter ended 31 March 2019. (3 marks)
- (c) Give two reasons why a goodwill account is not maintained in the books of a partnership. (2 marks)

(Total: 20 marks)

8. The trial balance of Alison Limited as at the financial year end, 31 December 2018, did not agree and the difference was posted to a suspense account.

The following errors were subsequently discovered:

- (i) Discounts allowed of \$175 had been credited to the discounts received account as \$715.
- (ii) The purchases day book was overcast by \$840.
- (iii) Accrued salaries of \$430 as at 31 December 2017 had not been brought forward as an opening balance in 2018.
- (iv) On 30 June 2018, sales proceeds of \$7 400 for a piece of office equipment had been recorded as a cash sale. No other entries in respect of this transaction had been made. The office equipment had a cost of \$16 300 and an accumulated depreciation of \$6 500 on the date of disposal.
- (v) Credit purchases of \$2 100 had been correctly recorded in the supplier's account, but the corresponding entry had been credited to the returns outwards account as \$1 200.
- (vi) In October 2018, the company issued ordinary shares of \$200 000. Application monies of \$280 000 were received and recorded in the share application account. The issuance of shares and the refund of the excess application monies had been properly made on 29 December 2018 but no entries were made in the books.
- (vii) The company made a 6% loan of \$35 000 to a director on 1 October 2018. However, the loan had been recorded as a payment to another supplier having the same name.
- (viii) A credit sale of \$1 180 had been debited to the sales account and credited to the trade receivables account.
- (ix) A rental deposit of \$17 000 had been paid but no entries were made in the books.

REQUIRED:

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (13 marks)
- (b) Prepare the suspense account to find out the difference as per trial balance. (4 marks)
- (c) Identify the type of accounting errors made in (vii), (viii) and (ix) above respectively. (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, 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.	A (76%)	16.	B (77%)
2.	B (73%)	17.	A (55%)
3.	A (68%)	18.	B (51%)
4.	C (52%)	19.	C (67%)
5.	D (67%)	20.	A (70%)
6.	B (64%)	21.	D (70%)
7.	C (67%)	22.	A (54%)
8.	D (38%)	23.	C (71%)
9.	A (48%)	24.	B (62%)
10.	D (55%)	25.	D (60%)
11.	D (75%)	26.	D (50%)
12.	B (72%)	27.	D (74%)
13.	B (74%)	28.	C (70%)
14.	A (58%)	29.	C (61%)
15.	C (65%)	30.	B (68%)

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

SECTION B PART 1

QUESTION 1

Marks

- (a)
- operates in more than one country 1
 - Pizza Deli operates in Italy, London and Sydney respectively 1
- (b) Disadvantages: 4
- limited autonomy: e.g. need to follow the standards and guidelines stipulated in the franchise agreement
 - need to pay royalties to the franchisor even when making a loss
 - subject to the success and failure/reputation of the franchisor
- (2 marks for each relevant disadvantage, max. 4 marks)

6 marks

QUESTION 2

Marks

- (a) Factors: 4
- repayment history/delinquency record: e.g. if Johnny had repaid past loans on time, his personal credit record would be better
 - record of bankruptcy: e.g. if Johnny had been bankrupt at an earlier time, his personal credit record would be worse
 - credit history: e.g. if Johnny had applied for credit successfully in the past and his usage of credit was appropriate, his personal credit record would be better
 - financial situations: e.g. if Johnny's current outstanding debt amount is low, his personal credit record would be better
- (2 marks for each relevant factor, max. 4 marks)
- (b) Characteristics: 4
- specific: e.g. does not define 'all Hong Kong people' and 'know' clearly
 - measurable: e.g. the goal is vague and not expressed in numerical form; there is no means to measure whether 'all Hong Kong people' know the brand name
 - realistic/attainable: the goal may not be achievable
- (2 marks for each relevant characteristic, max. 4 marks)

8 marks

QUESTION 3

Marks

(a)

Purchases						
2018			\$			
0.5	Dec 1	Cash at bank	5 000			
Cash at bank						
2018			\$	2018		\$
0.5	Dec 30	Jacky	7 600	Dec 1	Purchases	5 000
						0.5
Sales						
				2018		\$
				Dec 22	Jacky	8 000
						0.5
Jacky						
2018			\$	2018		\$
0.5	Dec 22	Sales	8 000	Dec 30	Cash at bank	7 600
				Dec 30	Discounts allowed	400
						0.5
Discounts allowed						
2018			\$			\$
0.5	Dec 30	Jacky	400			

(4)

- (b) (i) Real account: Jacky account, Cash at bank account 1
- (ii) Nominal account: Purchases account, Sales account, Discounts received account, Discounts allowed account 1
- (1 mark for each example, max. 2 marks)

6 marks

PART 2

QUESTION 4

Marks

- (a) (i) Gross profit ratio = $\$1\,495\,000 / \$2\,300\,000 \times 100\% = 65.00\%$ 1
- (ii) Net profit ratio = $\$345\,000 / \$2\,300\,000 \times 100\% = 15.00\%$ 1
- (iii) Capital as at 31 December 2018 = $\$1\,827\,500 + \$345\,000 = \$2\,172\,500$ 2
Average capital = $(\$1\,827\,500 + \$2\,172\,500) / 2 = \$2\,000\,000$
Return on capital employed = $\$345\,000 / \$2\,000\,000 = 17.25\%$
- (b) As compared with 2017, Au's firm was relatively less efficient in using its owners' capital to generate profits in 2018. 1
- (c) Division of work 1
- (d) Advantages: 4
– higher productivity and efficiency/practice makes perfect
– facilitates automation: e.g. use of machines and equipment
– time-saving: e.g. simplified training, saves time in switching from task to task
(2 marks for each relevant advantage, max. 4 marks)

10 marks

QUESTION 5

Marks

(a)

Au's firm Statement of financial position as at 31 December 2018			
	\$	\$	
Non-current assets			
Machinery		2 182 500	0.5
Current assets			
Inventory	100 000		0.5
Cash at bank	<u>140 000</u>		0.5
	240 000		
Less: Current liabilities			
Trade payables	<u>250 000</u>	<u>(10 000)</u>	0.5
		<u>2 172 500</u>	
Financed by			
Capital, as at 1 January 2018		1 827 500	0.5
Add: Net profit		<u>345 000</u>	0.5
		<u>2 172 500</u>	(3)

(b) Current ratio = \$240 000/\$250 000 = 0.96 : 1

1

Comments:

- the current ratio is lower than 1:1; the firm may have difficulty in repaying its short-term debts
- as compared with 2017, the liquidity of the firm was poorer due to its lower current ratio

1

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

(c) Unity of command

1

(d) Advantages:

- avoid conflicting instructions causing confusion to subordinates: e.g. avoid work assignments being given by different managers
- facilitate supervision of subordinates: e.g. clearly define lines of authority, responsibility and accountability to avoid conflicts between managers

4

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

10 marks

END OF PAPER 1

Paper 2A
Accounting Module

SECTION A

QUESTION 1

Marks

- (a) Inventory turnover:

$$\frac{\$210\,700}{(\$153\,500 + \$86\,400)/2} = \frac{\$210\,700}{\$119\,950} = 1.76 \text{ times}$$
2
- (b) Trade receivables turnover:

$$\frac{\$298\,200 - \$11\,600}{(\$95\,300 + \$58\,200)/2} = \frac{\$286\,600}{\$76\,750} = 3.73 \text{ times}$$
2
- (c) Total assets turnover:

$$\frac{\$298\,200}{\$144\,800 + \$153\,500 + \$95\,300 + \$22\,100} = \frac{\$298\,200}{\$415\,700} = 0.72 \text{ times}$$
2
- (d) Gearing ratio:

$$\frac{\$95\,000}{\$95\,000 + \$70\,000 + \$124\,800} = \frac{\$95\,000}{\$289\,800} = 32.78\%$$
2

8 marks

QUESTION 2

Marks

		Cash at bank		
2018		\$	2018	\$
0.5	Balance b/d (Balancing figure)	360 000	Trade receivables (ii)	3 900
0.5	Interest income (i)	2 400	Trade receivables (iii)	6 300
			Trade payables (v)	96 000
			Balance c/d	256 200
		<u>362 400</u>		<u>362 400</u>

(3)

Bank reconciliation statement as at 31 December 2018

	\$	\$	
Balance as per bank statement		300 000	0.5
Add: Uncredited deposits (vi)		<u>23 100</u>	0.5
		323 100	
Less: Incorrect credit transfer (iv)	5 200		1
Unpresented cheques (vi)	<u>61 700</u>	<u>66 900</u>	0.5
Adjusted balance as per cash at bank account		<u>256 200</u>	0.5

(3)

- (b) Reasons:
- insufficient balance in drawer's account
 - wrong drawee's name/drawer's signature
- (1 mark for each relevant reason, maximum 2 marks)
- (2)

8 marks

QUESTION 3

Marks

(a)

	Product			
	A	B	C	
	\$/unit	\$/unit	\$/unit	
Selling price	365	390	225	
Less: Variable costs				
Direct materials	(80.5)	(95.0)	(45.5)	
Direct labour	(60.5)	(61.0)	(40.0)	
Variable manufacturing overheads	(24.0)	(24.5)	(20.5)	
Variable selling and administrative expenses	(21.5)	(21.5)	(21.5)	
Contribution margin per unit	178.5	188.0	97.5	(2)

(b) Fixed manufacturing overhead absorption rate = $\frac{\$440\,000}{20\,000 \text{ hours}}$ = \$22 per machine hour

	Product			
	A	B	C	
Fixed manufacturing overheads absorbed	\$55.0	\$88.0	\$33.0	
Machine hours required per unit	2.5 hours	4 hours	1.5 hours	(2)

(c)

	Product			
	A	B	C	
Contribution margin per machine hour	\$71.4	\$47	\$65	1.5
(a/b)				
Ranking by contribution/machine hour	1	3	2	
Total machine hours required	11 250	2 300	6 450	1.5
	(2.5×4 500)	(20 000–11 250– 6 450)	(1.5×4 300)	
Units to be produced	4 500	575	4 300	1
		(2 300/4)		(4)

8 marks

SECTION B

QUESTION 4

Marks

(a)

Tracy Limited			
Income statement for the year ended 31 December 2018			
	\$	\$	
Sales		3 254 000	0.5
Less: <u>Cost of goods sold</u>			
Opening inventory	344 000		0.5
Add: Purchases	2 130 000		0.5
	<u>2 474 000</u>		
Less: Closing inventory	445 000	2 029 000	0.5
Gross Profit		<u>1 225 000</u>	
Add: Gain on disposal of short-term investments		134 000	0.5
		<u>1 359 000</u>	
Less: <u>Expenses</u>			
Administrative expenses	816 170		2
(\$408 370 – \$36 000 × 3/12 + \$10 000 + \$70 800 + 336 000)			
Selling and distribution expenses	475 750		0.5
Debenture interest (\$600 000 × 4% × 8/12)	<u>16 000</u>	1 307 920	0.5
Net profit		<u><u>51 080</u></u>	0.5
			(6)

(b)

Tracy Limited			
Statement of financial position as at 31 December 2018			
	\$	\$	
Assets			
<u>Non-current assets</u>			
Equipment (\$3 360 000 – \$1 160 000 – \$336 000)		1 864 000	0.5
<u>Current assets</u>			
Inventory	445 000		0.5
Short-term investments	816 250		0.5
Trade receivables	136 000		0.5
Prepaid expenses (\$36 000 × 3/12)	9 000		0.5
Cash at bank	<u>409 000</u>	1 815 250	0.5
Total assets		<u><u>3 679 250</u></u>	
Equity and liabilities			
<u>Equity</u>			
Ordinary share capital		2 465 000	0.5
Retained profits (\$186 370 + \$51 080 – \$40 000)		197 450	1
General reserve		<u>40 000</u>	0.5
		2 702 450	
<u>Non-current liabilities</u>			
4% Debentures		600 000	0.5
<u>Current liabilities</u>			
Trade payables	292 000		0.5
Accrued expenses [\$10 000 + \$70 800 + (\$16 000 – \$12 000)]	<u>84 800</u>	376 800	1
Total equity and liabilities		<u><u>3 679 250</u></u>	
			(7)
			<u>13 marks</u>

QUESTION 5

Marks

(a) (i)

Statement to calculate the sales for the year 2018

	\$	
Balance of trade receivables as at 31 December 2018 (\$88 100 + \$28 610)	116 710	1
Add: Receipts from customers (\$782 320 – \$28 610)	753 710	0.5
Sales for the year 2018	<u>870 420</u>	0.5
		(2)

(ii) Statement to calculate the purchases for the year 2018

	\$	
Balance of trade payables as at 31 December 2018 (\$101 680 – \$31 080)	70 600	1
Add: Payment to suppliers (\$202 000 + \$31 080)	233 080	0.5
Purchases for the year 2018	<u>303 680</u>	0.5
		(2)

(iii) Statement to calculate the net book value of equipment as at 31 December 2018

	\$	
Cost of equipment	80 000	0.5
Less: Accumulated depreciation (\$80 000 x 10%)	8 000	1
Net book value as at 31 December 2018	<u>72 000</u>	0.5
		(2)

(iv) Statement to calculate drawings by Mr Lee during 2018

	\$	
Drawings from bank	30 200	0.5
Drawings of inventory (\$17 640 ÷ 210%)	8 400	1
Drawings by Mr Lee during 2018	<u>38 600</u>	0.5
		(2)

(b) - Matching

- links revenue with its relevant expenses or costs
- the use of equipment could generate revenue for the business, the cost of the equipment should therefore be allocated over its estimated useful life

(3)

11 marks

QUESTION 6

Marks

(a) (i) Contribution margin ratio = $\frac{(\$1\,800\,000 - \$800\,000 - \$250\,000 - \$156\,000)}{\$1\,800\,000} \times 100\% = 33\%$ (2)

(ii) Total fixed costs: $\$190\,000 + \$139\,400 + \$90\,000 = \$419\,400$

Sales required: $\frac{(\$419\,400 + \$300\,000)}{33\%} = \$2\,180\,000$ (3)

(b)

Owen Limited			
Income statement for the quarter ended 31 March 2019			
	\$	\$	
Sales (\$1 800 000 x 120% x 95%)		2 052 000	0.5
Less: Variable costs			
- Direct materials (\$800 000 x 120% x 92%)	883 200		0.5
- Direct labour (\$250 000 x 120%)	300 000		0.5
- Production overheads (\$156 000 x 120%)	187 200	1 370 400	0.5
Contribution margin		681 600	1
Less: Fixed costs			
- Production overheads	210 000		0.5
- Administrative expenses	139 400		0.5
- Selling and distribution expenses (\$90 000 + \$10 000)	100 000	449 400	0.5
Net profit		232 200	0.5
			(5)

- (c) Advantages:
- facilitates decision-making as fixed costs are sunk costs, which are irrelevant
 - facilitates prediction on the changes in profits when there are changes in selling price, sales volume or variable costs
- (2 marks for each advantage, maximum 2 marks) (2)

12 marks

SECTION C

QUESTION 7

Marks

(a)(i)		Revaluation	
2019	\$	2019	\$
Jan 1		Jan 1	
0.5	Motor vans (\$574 000 – \$390 000)	184 000	Property 346 000 0.5
0.5	Allowance for doubtful debts	42 000	Trade receivables 2 000 1
Profit on revaluation:			
0.5	Capital - Ron (2/5)	48 800	
	Capital - Ann (2/5)	48 800	
	Capital - Ben (1/5)	24 400	122 000
		348 000	348 000

(3)

(a)(ii)		Capital	
2019	Ron	Ann	Ben
Jan 1	\$	\$	\$
1	Goodwill	90 000	60 000
0.5	Loan from Ron	900 000	
0.5	Cash at bank	380 800	
1.5	Balance c/d	828 800	698 400
		1 280 800	918 800

(6)

(a)(iii) Ann, Ben and Carol
Statement of financial position as at 1 January 2019

	\$	\$
Non-current assets		
Property (\$1 000 000 + \$346 000)		1 346 000 0.5
Equipment (\$360 000 + \$50 000)		410 000 0.5
Motor vans		390 000 0.5
		2 146 000
Current assets		
Inventory	283 000	0.5
Trade receivables, net (\$240 000 – \$42 000 + \$2 000)	200 000	1
Cash at bank (\$287 000 + \$680 000 – \$380 800)	586 200	1
	1 069 200	
Less: Current liabilities		
Trade payables	88 000	0.5
Loan from Ron	900 000	1
		2 227 200
Financed by		
Capital – Ann		828 800
Ben		698 400
Carol		700 000
		2 227 200

(6)

QUESTION 7 (Cont'd)

Marks

- (b) Appropriation account for the quarter ended 31 March 2019
- | | | | |
|--|----|----------------|-----|
| | \$ | \$ | |
| Net profit for the quarter ($\$270\,000 - (\$900\,000 \times 10\%) \times 3/12$) | | 247 500 | 1 |
| Less: Partner's salary - Ben ($\$30\,000 \times 3/12$) | | <u>7 500</u> | 0.5 |
| | | <u>240 000</u> | |
| Share of profits | | | |
| – Ann (3/5) | | 114 000 | 0.5 |
| – Ben (2/5) | | 76 000 | 0.5 |
| – Carol | | <u>50 000</u> | 0.5 |
| | | <u>240 000</u> | |
| | | | (3) |
- (c) Reasons: (2)
- valuation may be subjective
 - relationship with future economic benefit is not easily identifiable or measurable
- (1 mark for each relevant reason, maximum 2 marks)

20 marks

QUESTION 8
Marks

(a)

The Journal			
		Dr	Cr
		\$	\$
(i)	Discounts allowed	175	
	Discounts received	715	
	Suspense		890
			0.5
(ii)	Suspense	840	
	Purchases		840
			0.5
(iii)	Suspense	430	
	Salaries		430
			0.5
(iv)	Sales	7 400	
	Accumulated depreciation	6 500	
	Loss on disposal	2 400	
	Office equipment		16 300
			0.5
(v)	Returns outwards	1 200	
	Purchases	2 100	
	Suspense		3 300
			0.5
(vi)	Share application	280 000	
	Ordinary share capital		200 000
	Cash at bank		80 000
			0.5
(vii)	Loan to director	35 000	
	Trade payables		35 000
	Interest receivables (35 000 x 6% x 3/12)	525	
	Interest income		525
			1
(viii)	Trade receivables	2 360	
	Sales		2 360
			0.5
(ix)	Rental deposit	17 000	
	Cash at bank		17 000
			0.5
			(13)

(b)

Suspense account			
		\$	\$
1	Difference as per trial balance	2 920	
0.5	(ii) Purchases	840	
0.5	(iii) Salaries	430	
		<u>4 190</u>	
	Discounts allowed (i)		175
	Discounts received (i)		715
	Returns outwards (v)		1 200
	Purchases (v)		2 100
			<u>4 190</u>
			(4)

(c)

(vii)	Error of principle	1
(viii)	Error of complete reversal of entries	1
(ix)	Error of omission	1
		(3)

20 marks
END OF PAPER 2A