

## 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. Ken and Tracy plan to establish and operate a restaurant together, in which the withdrawal of either side would not lead to its closure. Which form of business ownership should they adopt?
- A. partnership
  - B. public corporation
  - C. private limited company
  - D. listed company

2. What is the importance of management to a business?
- (1) optimise utilisation of organisational resources
  - (2) establish sound organisational structure
  - (3) achieve organisational goals effectively
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

3. Which of the following descriptions of 'debit' and 'credit' in accounting is/are correct?
- (1) 'Debit' means an increase and 'credit' means a decrease in the amount of an account.
  - (2) 'Debit' side refers to the left-hand side and 'credit' side refers to the right-hand side of an account.
  - (3) 'Debit' balance is positive and 'credit' balance is negative.
- A. (1) only
  - B. (2) only
  - C. (1) and (2) only
  - D. (2) and (3) only

4. Which of the following descriptions of the Hang Seng Index is/are correct?
- (1) 'Utilities' is a sub-index of the Hang Seng Index.
  - (2) It indicates the dividend policies of the companies of the constituent stocks.
  - (3) It is a platform for businesses to raise capital.
- A. (1) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only

5. Which of the following effects on the assets, capital and liabilities brought about by the respective transaction is correct?

	<u>Transaction</u>	<u>Asset</u>	<u>Capital</u>	<u>Liability</u>
A.	Owner injected his own motor van to the firm.	increases	increases	increases
B.	Received cash from a customer as settlement of his account.	increases	unchanged	decreases
C.	Owner repaid a bank loan for the firm by his personal cheque.	unchanged	increases	decreases
D.	Paid rent of the firm for the current month in cash.	decreases	unchanged	decreases

6. Which of the following descriptions of a SMART goal are correct?
- (1) It should be quantified.
  - (2) There should be an expected completion time.
  - (3) The methods of achieving the goal should be stated clearly.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
7. There are different departments in a company. One of the goals of the company is to improve the service quality of its salespersons. For this reason, the human resources manager of the company assigned her subordinate, Tim, to design training programmes for the salespersons. Tim reports to the human resources manager only. Which of the following principles of effective management are illustrated in this scenario?
- (1) Unity of direction
  - (2) Unity of command
  - (3) Division of work
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
8. The following information is related to an investment project:
- Initial cost: \$15 000  
Discount rate: 10%  
Investment period: 3 years
- The project will generate cash flows of \$6 000 at the end of both Year 1 and Year 2. If the cash flow at the end of Year 3 is \_\_\_\_\_, the net present value of the project is close to zero.
- A. 4 587
  - B. 5 083
  - C. 6 105
  - D. 7 965
9. A firm's current ratio is 1.8:1 and the acid-test ratio is 0.9:1. Which of the following statements is correct?
- A. The amount of working capital of the firm is negative.
  - B. Half of the current assets of the firm are inventory.
  - C. The liquidity and profitability of the firm are poor.
  - D. The firm has sufficient liquid assets to settle its current liabilities.
10. Which of the following is/are feature(s) of Hong Kong's economy?
- (1) Most businesses in Hong Kong are small and medium enterprises.
  - (2) Hong Kong is a net exporter of raw materials.
  - (3) Hong Kong does not maintain trade barriers on imports.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only

11. Which of the following is/are limitation(s) of using financial statements?
- (1) The financial statements mainly record past transactions, which may not reflect the future.
  - (2) The inter-period comparison of the firm's performance is difficult as the assets in financial statements are generally reported at their market values, which fluctuate over time.
  - (3) It is difficult to compare the performance of different firms in the same industry as different firms would adopt different accounting methods.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)
12. A bank has the following departments: deposit, loan, credit card, investment and personal financial planning. Under the personal financial planning department, there are Hong Kong Island, Kowloon and New Territories divisions. State the forms of departmentalisation adopted by the bank.
- (1) by product
  - (2) by function
  - (3) by location
- 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 descriptions of the flow of the accounting cycle is/are correct?
- (1) Right after the posting of entries to ledgers, period-end adjustments are made.
  - (2) Right after the preparation of trial balance, financial statements are prepared.
  - (3) Right after the confirmation of business transactions, books of original entry are recorded.
- A. (1) only
  - B. (3) only
  - C. (1) and (2) only
  - D. (2) and (3) only
14. A trading firm earned an interest income of \$8 000. How will the firm's gross profit and net profit for the year be affected?
- |    | <u>Gross profit</u> | <u>Net profit</u> |
|----|---------------------|-------------------|
| A. | unchanged           | increases         |
| B. | increases           | unchanged         |
| C. | unchanged           | unchanged         |
| D. | increases           | increases         |
15. Ignore other factors, which of the following will lead to a decrease in the share price of a listed airline company?
- (1) a rise in interest rate
  - (2) a rise in fuel price
  - (3) the airline company issued a profit warning
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

16. The following are the differences in characteristics of two partners in a partnership:

	<u>Partner A</u>	<u>Partner B</u>
bearing of liabilities	not required	required
introduction of capital	not required	required
involvement in daily operations	not required	not required

Partner A is a (1) partner, while Partner B is a (2) partner.

- |    |            |            |
|----|------------|------------|
|    | <u>(1)</u> | <u>(2)</u> |
| A. | nominal    | limited    |
| B. | nominal    | general    |
| C. | general    | limited    |
| D. | limited    | nominal    |

17. Which of the following statements about authority and responsibility are correct?

- (1) For a job position, responsibility should be balanced with authority.
  - (2) Authority and responsibility of managers increase progressively from low-level to top-level.
  - (3) Delegation is the assigning of authority and responsibility of work from the superior to the subordinates.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

18. Which of the following transactions should be recorded in the purchases account of a supermarket?

- (1) purchased a freezer for storing ice-cream
  - (2) owner took some canned food from the warehouse for his family use
  - (3) received a discount from a supplier for bulk purchase of goods
- A. (1) only
  - B. (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

19. Which of the following are the rights of an investor in debentures?

- (1) can lodge a complaint if there is a misconduct by the investment agent
  - (2) can ask for the rationale behind an investment recommendation
  - (3) can cancel the investment transaction in the cooling off period
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

20. Jeffery is the owner of two firms. For the sake of convenience, he records all the purchases of the two firms in the same book. Which of the following accounting assumptions, principles or conventions has been violated in this case?

- A. Accrual
- B. Historical cost
- C. Going concern
- D. Business entity

21. Which of the following statements is **not** correct?
- The human resources department recruits an accounting clerk according to the requirements set by the finance department.
  - The information management department uses data collected by the marketing department to set the product price.
  - The risk management department assesses the risks of using tools and machinery for the operations department.
  - The finance department obtains a loan for the operations department to expand production capacity.
22. Which of the following companies does not fulfill its social responsibility towards its stakeholders?
- A company adopts a strict credit policy for its customers.
  - A company does not distribute dividend to ordinary shareholders.
  - A company charges a higher price than its competitors selling the same type of product.
  - A company does not provide training and development opportunities for its employees.
23. The following balances as at 31 December 2019 were extracted from the accounts of a firm:
- |                               |        |
|-------------------------------|--------|
|                               | \$     |
| Inventory                     | 17 500 |
| Bank                          | 27 000 |
| Trade payables                | 30 800 |
| Trade receivables             | 16 400 |
| Short term loan to employees  | 8 000  |
| Bank loan (repayable in 2022) | 13 000 |
- What is the liquid ratio of the firm?
- 1.12:1
  - 1.57:1
  - 1.67:1
  - 2.24:1
24. Which of the following are the benefits brought about by globalisation to Hong Kong businesses?
- more sources of capital
  - introduction of new technology
  - lower production cost
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)
25. Which of the following statements about the Mandatory Provident Fund (MPF) System is/are correct?
- Employees can transfer the accrued benefits in their contribution accounts to an MPF scheme of their own choice once a year.
  - Self-employed hawkers are not required to join an MPF scheme.
  - If the income of an employee is below the minimum relevant income level, both the employee and the employer are not required to make mandatory contributions.
- (1) only
  - (1) and (2) only
  - (2) and (3) only
  - (1), (2) and (3)

26. The number of staff in Firm A and Firm B are the same. Firm A has a flat organisational structure while Firm B has a tall organisational structure. Which of the following statements is/are correct?
- (1) Firm A is more responsive to market changes.
  - (2) There are more levels of management in Firm A.
  - (3) There are more managers in Firm A.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
27. Which of the following statements about multinational corporations is/are correct?
- (1) Multinational corporations are public limited companies.
  - (2) Multinational corporations operate in different countries.
  - (3) A local company becomes a multinational corporation by raising capital in other countries.
- A. (1) only
  - B. (2) only
  - C. (1) and (2) only
  - D. (2) and (3) only
28. Which of the following descriptions of the Main Board and GEM (previously known as Growth Enterprise Market) are correct?
- (1) More companies are listed on the Main Board than on GEM.
  - (2) 'Management continuity for at least the three preceding financial years' is one of the basic listing requirements for applicants to list on the Main Board.
  - (3) The Main Board was set up for large and established companies.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
29. Under which of the following circumstances should laissez-faire leadership be adopted by a superior?
- (1) the work requires a high level of creativity
  - (2) subordinates are young and energetic
  - (3) superior-subordinate relationship is good
- A. (1) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
30. On 8 April, Tin Ming purchased goods for \$60 000 on credit from Walter with a trade discount of 2%. Another 3 % discount would be received by Tin Ming if settlement was made within 10 days. If Tin Ming makes the settlement on 21 April, he has to repay \_\_\_\_\_.
- A. \$57 036
  - B. \$58 200
  - C. \$58 800
  - D. \$60 000

END OF SECTION A

**SECTION B (30 marks)**

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

1. High-Tech Company is a small and medium enterprise (SME) which specialises in developing data processing systems for businesses in Hong Kong. At the commencement of each quarter, the project manager and the programmers discuss and decide on the work plan of the quarter. Throughout the quarter, they review the work progress regularly and identify the difficulties encountered. Support is provided to the programmers based on their feedback.

- (a) Apart from providing job opportunities, state two contributions SMEs make to the economy of Hong Kong. (2 marks)
- (b) (i) State the principle of effective management adopted by High-Tech Company in the above scenario. (1 mark)
- (ii) Explain two advantages for High-Tech Company of adopting the principle of effective management in (b)(i) above. (4 marks)

2. To finance the expansion of the business, Chan's firm is applying for a bank loan. The bank requested Chan's firm to submit its financial statements of the past three years for its consideration.

- (a) Explain how the bank will use the financial statements to decide whether to approve the loan. (2 marks)

Based on the General Manager's suggestion, Chan's firm is considering changing the valuation method of its non-current assets this year.

- (b) State an accounting principle or concept that can be applied to this case, and use this principle or concept to explain whether or not Chan's firm should change the valuation method of its non-current assets. (3 marks)

3. David is 30 years old and single. He is a professional accountant working in an international accounting firm. He has just acquired a residential flat and paid a down payment on the price of the flat. To buy furniture for his new home, he is considering using his credit card, applying for a personal loan or a bank overdraft.

- (a) What is a 'bank overdraft'? (2 marks)
- (b) Suppose David has decided to use a credit card to pay for the furniture. Give two reasons for using his credit card instead of applying for a personal loan. (4 marks)
- (c) List two financial needs that David has in his present life stage. (2 marks)

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

4.

(A) Warmer is a famous company in Canada, selling thick coats and wool products. It is planning to set up a branch in Hong Kong.

- (a) State one social factor and one physical factor that Warmer should consider when setting up a branch in Hong Kong and explain how each factor might affect its business. (4 marks)

(B) Wendy set up a firm on 1 March 2020. All the transactions of the firm for its first month of operation have been recorded in the following accounts:

Bank					
2020		\$	2020		\$
March 1	Capital	10 000	March 2	Rent	4 000
March 16	Sales	3 500	March 5	Equipment	3 000
			March 11	Purchases	2 000
			March 20	Purchases	4 700

Equipment					
2020		\$	2020		\$
March 5	Bank	3 000			

Rent					
2020		\$	2020		\$
March 2	Bank	4 000			

Sales					
2020		\$	2020		\$
			March 16	Bank	3 500
			March 25	Trade receivables	4 500

Purchases					
2020		\$	2020		\$
March 11	Bank	2 000			
March 20	Bank	4 700			

Trade receivables					
2020		\$	2020		\$
March 25	Sales	4 500			

Capital					
2020		\$	2020		\$
	?			?	

- (b) (i) Prepare the capital account and balance off the account as at 31 March 2020. (1 mark)
- (ii) Prepare a trial balance as at 31 March 2020. (5 marks)

(Total: 10 marks)

5.

(A) Company A and Company B specialise in designing and building large shopping malls in Hong Kong. They plan to set up a new business together to carry out a construction project — building a shopping mall in Causeway Bay. The project will last for five years and the new business will be dissolved upon the completion of the project.

- (a) Identify the form of ownership of the new business to be set up by Company A and Company B. (1 mark)
- (b) Explain one advantage of operating in the form of business ownership in (a) above. (2 marks)
- (c) Explain one difference between a partnership and the form of business ownership in (a) above. (2 marks)

(B) Lucy has been operating a trading firm since 2017. The following account balances were extracted from the books of the firm as at 31 December 2019:

	\$
Capital, 1 January 2019	100 000
Returns inwards	4 000
Inventory, 1 January 2019	10 000
Carriage inwards	8 000
Machinery	145 000
Purchases	400 000
Other operating expenses	87 500
Discounts allowed	9 000
Carriage outwards	32 000
Bank	199 000
Returns outwards	4 500
Sales	790 000

There was no closing inventory at the end of 2019.

- (d) Prepare an income statement for the year ended 31 December 2019. (5 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. Victor's firm is a sole proprietorship trading toys which keeps the following six day books: Cash Book, Sales Journal, Purchases Journal, Returns Inwards Journal, Returns Outwards Journal and General Journal. For the following transactions, indicate the books of original entry to be recorded, and the accounts to be debited and credited. Write your answers for items (1) to (12) in the answer book.

Transaction		Book of original entry	Account to be debited	Account to be credited
e.g.	Sold toys on credit	Sales Journal	Trade receivables	Sales
(i)	Purchased toys in cash	(1)	(2)	Cash
(ii)	Returned office equipment to a credit supplier	(3)	Accounts payables	(4)
(iii)	Received a bill, to be settled in next financial year, for stationery purchased	(5)	(6)	(7)
(iv)	Issued a debit note for toys returned	(8)	(9)	(10)
(v)	Paid rent for owner's personal apartment by cheque	(11)	(12)	Bank

(Total: 6 marks)

2. Information relates to the new equipment of Kam Kee Manufacturing Company is as follows:

	\$
List price (before a trade discount of 20%)	500 000
Installation cost	5 000
Repair cost for accidental damage during installation	2 800
Testing fee after installation	2 000
Training fee for equipment operators	4 000

**REQUIRED:**

- (a) Prepare a statement to calculate the cost to be capitalised for the equipment. (2 marks)

On 1 January 2018, the company acquired a machine with a cost of \$432 000 and a residual value of \$5 500. The machine was expected to produce 10 000 units of goods in total and annual depreciation is to be provided based on the production quantity of the machine.

The actual annual production quantity of the machine is as follows:

Year	Production quantity (units)
2018	2 700
2019	900

On 31 May 2019, the machine was totally destroyed in an accident. On 15 December 2019, the insurance company agreed to pay 70% of the net book value of the machine on the date of the accident as compensation in March 2020.

**REQUIRED:**

- (b) Prepare the following accounts for the year ended 31 December 2019:

- (i) Accumulated depreciation account — machine
- (ii) Disposal account — machine

(4 marks)

(Total: 6 marks)

3. Andy Company uses the weighted average cost method for inventory valuation. The information relates to the inventory of its single product is available:

- (i) There were 500 units of product in the opening inventory as at 1 February 2020, with an average cost of \$35 each.
- (ii) In February 2020, the company recorded the following:
  - On 10 February, 1 000 units of product were purchased at \$32 000.
  - On 14 February, 350 units of product were sold at \$45 each.
  - On 23 February, 400 units of product were sold at \$39 each.
  - On 29 February, 100 units of product were found to be obsolete and could only be sold for \$30 each.

**REQUIRED:**

- (a) Compute the value of closing inventory as at 29 February 2020. (3 marks)
- (b) Prepare an extract of the income statement for the month ended 29 February 2020, showing the calculation of gross profit. (2 marks)
- (c) An accounts clerk in Andy Company said, 'If only 5 units instead of 100 units of product were obsolete on 29 February 2020, no inventory adjustments would be required since the loss was insignificant.'

Explain whether you agree with the accounts clerk or not. (1 mark)

(Total: 6 marks)

4. Sunny Company launched a new product in 2019. Cost information for the past four quarters is as follows:

Activity level	Quarter 1 3 000 units	Quarter 2 6 000 units	Quarter 3 12 000 units	Quarter 4 11 000 units
<u>Cost item</u>	\$	\$	\$	\$
Direct materials	3 600	7 200	14 400	13 200
Direct labour	6 000	12 000	24 000	22 000
Machinery depreciation	3 000	3 000	3 000	3 000
Rental expenses	7 000	7 000	10 000	10 000
Electricity expenses	2 600	4 700	9 800	10 000

The product was sold at \$9 per unit.

**REQUIRED:**

- (a) Use the high-low method to calculate the variable component and the fixed component of the electricity expenses respectively. (2 marks)
- (b) Calculate the contribution margin per unit of product for Quarter 1. (2 marks)
- (c) Calculate the breakeven point in quantity for Quarter 1. (2 marks)

(Total: 6 marks)

**SECTION B (36 marks)**

Answer **ALL** questions in this section.

5. Johnny Limited's financial year ends on 31 December each year. Information for 2019 is as follows:

	\$
Net profit after tax	80 200
Dividend declared and paid for 2019: Ordinary shares	13 500
Preference shares	8 000
<u>Balances as at 1 January 2019</u>	
Retained profits	210 000
General reserve	100 000
<u>Balances as at 31 December 2019</u>	
Current liabilities	129 580
3% Debenture, repayable in 2025	280 000
45 000 Ordinary share capital	900 000
20 000 4% Preference share capital	200 000
General reserve	100 000

**REQUIRED:**

- (a) Prepare a statement to calculate the shareholders' funds as at 31 December 2019. (4 marks)
- (b) Calculate (to two decimal places) the following ratios for 2019:
- (i) gearing ratio (2 marks)
- (ii) earnings per share (2 marks)
- (iii) dividend cover for ordinary shares (in times) (2 marks)
- (c) Johnny Limited plans to raise \$1 million by long-term financing without deteriorating its solvency. Suggest, with explanation, one financing method Johnny Limited should use. (2 marks)

(Total: 12 marks)

6. Yip, Tim and Sum have been in partnership sharing profits and losses in the ratio of 1:2:3. The statement of financial position as at 31 December 2019 is drafted as follows:

Yip, Tim and Sum Statement of financial position as at 31 December 2019		
	\$	\$
<b>Assets</b>		
Furniture, net		468 000
Office equipment, net		180 000
Inventory		53 500
Trade receivables		<u>36 500</u>
		738 000
<b>Liabilities</b>		
Trade payables	53 000	
Loan from Tim	31 000	
Bank overdraft	<u>42 000</u>	<u>126 000</u>
		612 000
<b>Financed by</b>		
Capital accounts - Yip	80 000	
- Tim	190 000	
- Sum	<u>280 000</u>	550 000
Current accounts - Yip	(34 300)	
- Tim	47 700	
- Sum	<u>48 600</u>	<u>62 000</u>
		612 000

Due to increasing conflicts, the partners decided to dissolve the partnership on 1 January 2020. The relevant information is as follows:

- The furniture was sold at 30% below its net book value.
- All office equipment was scrapped with a charge of \$23 400.
- One third of the inventory was sold for \$10 000. The remaining inventory was taken over by Tim to set off his loan to the partnership.
- Sum took over all trade receivables at \$30 500 and he collected \$32 900 in the end.
- Trade payables were fully settled, of which 40% was settled at a 5% discount.
- Realisation expenses of \$6 800 were paid.
- Yip was insolvent and it was agreed that his deficiency was to be borne by the remaining partners equally.

**REQUIRED:**

Prepare the following accounts:

- realisation account (6 marks)
- the partners' capital accounts in columnar form, showing the necessary adjustments for the dissolution (5 marks)

(Total: 11 marks)

7. Lucky Company produces a single product, Product Y. It uses the absorption costing system and its full production capacity is 10 000 direct labour hours per quarter. The information for the quarter ended 31 March 2020 is given below:
- (i) There was no opening inventory for this quarter. During the quarter, 1 000 units and 700 units of Product Y were produced and sold respectively.
  - (ii) Fixed manufacturing overheads were budgeted at \$150 000.
  - (iii) Estimated total cost per unit of product amounted to \$474. It comprised variable costs and predetermined fixed manufacturing overheads absorbed based on 10 direct labour hours per unit. Variable costs consisted of production cost and non-production cost in the ratio of 9:1, whereas the non-production cost contained selling expenses only.
  - (iv) Total costs were incurred as expected, except for an overspending on fixed manufacturing overheads of \$8 000.
  - (v) The contribution margin ratio is 40%.

**REQUIRED:**

- (a) For Product Y, calculate
    - (i) the predetermined fixed manufacturing overheads absorbed per unit.
    - (ii) the selling price per unit.
    - (iii) the selling expenses per unit.

(3 marks)
  - (b) Prepare the income statement for the quarter ended 31 March 2020 using the absorption costing system.

(5 marks)
  - (c) Explain, with supporting calculations, the effect on net profit for the first quarter of 2020 if the company uses the marginal costing system instead.

(3 marks)
  - (d) Define 'matching concept' and explain how the concept is applied to the absorption costing system.

(2 marks)
- (Total: 13 marks)

**SECTION C (20 marks)**

Answer **ONE** question in this section.

8.  
(A) Mr Lau is a sole trader engaged in the garment business. Because of a fire in December 2019, some of the inventory and accounting records of the business were lost. After reviewing the books, the following information is available:

- (i) Some account balances of the business as at 31 December were as follows:

	2019	2018
	\$	\$
Equipment	?	1 250 000
Accumulated depreciation – Equipment	?	517 075
Inventory	65 000	40 000
Trade receivables	179 000	158 500
Trade payables	120 000	117 700
Bank	?	187 500
Cash	8 050	6 000
Prepaid operating expenses	3 000	--
Prepaid administrative expenses	7 200	--
Accrued administrative expenses	--	4 300
Allowance for doubtful accounts	?	2 000

- (ii) Sales were made both on credit and in cash while purchases were made on credit only. All goods were sold at a uniform mark-up of 50% in 2019.
- (iii) A summary of all receipts and payments made in the bank account for the year ended 31 December 2019 was verified as below:

<u>Receipts</u>	\$
Cash deposits	120 000
Receipts from credit customers	950 000

<u>Payments</u>	\$
Operating expenses	150 000
Administrative expenses	160 000
Payments to suppliers	840 000

- (iv) During the year, all cash receipts were from cash sales and the following payments were made in cash:

	\$
Drawings	42 000
Administrative expenses	21 500

- (v) Goods returned by credit customers and the business's returns to suppliers during 2019 amounted to \$24 000 and \$16 500 respectively.
- (vi) An allowance for doubtful accounts of 1% of trade receivables was to be provided on 31 December 2019.
- (vii) The insurance company agreed to compensate the business for 75% of the inventory destroyed in the fire.

(viii) On 1 November 2019, a set of old equipment was traded in for a new model at a trade-in value of \$2 100. The old equipment was acquired on 1 March 2016 at \$25 000. The purchase price of the new equipment was \$36 200 and the outstanding amount would be settled in January 2020.

It is the business's policy to provide depreciation on equipment at a rate of 30% per annum on a reducing-balance basis. A full year's depreciation on equipment is to be provided in the year of acquisition but none in the year of disposal.

**REQUIRED:**

- (a) Prepare the income statement for the year ended 31 December 2019. (10 marks)
  - (b) Prepare the statement of financial position as at 31 December 2019. (8 marks)
- (B) State two transactions that would increase the cash or bank balances of a business without affecting its net profit. (2 marks)

(Total: 20 marks)

9.

(A) Anson Company drafted a trial balance as at 31 December 2019, prior to the preparation of closing entries. As the trial balance did not agree, a suspense account was opened. Subsequent investigation revealed the following:

(i) The company's bank statement showed a credit balance of \$259 465 as at 31 December 2019, which did not agree with the balance shown in the bank account on that date. The following were subsequently discovered:

(1) The following cheques had been recorded in the books but had not yet been presented to the bank:

<u>Cheque Number</u>	<u>Payee</u>	<u>Date of cheque</u>	<u>\$</u>
418226	Benny Limited	12 June 2019	23 615
471218	P&P Limited	3 November 2019	71 620
473006	Nice Company	4 January 2020	9 600

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

(2) The company had deposited cheques totalling \$47 900 into the bank and recorded them in the books on 31 December 2019, but they were not recorded by the bank until 2 January 2020.

(3) A cheque for \$63 300 received from a customer, whose account had been outstanding for three months, was dishonoured and returned by the bank. The bookkeeper recorded the dishonoured cheque as \$6 330.

(4) Interest charges of \$1 795, shown in the bank statement, had not been recorded in the books.

(ii) The sales day book was overcast by \$3 480.

(iii) Returns outwards of \$835 had been mistakenly debited to the returns inwards account as \$385.

(iv) It is the company's policy to charge depreciation on equipment at a rate of 25% per annum using the straight-line method on a monthly basis. The bookkeeper had provided a full year's depreciation on equipment for 2019. A piece of equipment which was purchased for \$120 000 on 1 July 2015 was still in use at the end of 2019.

(v) In December 2019, goods costing \$45 000 were received from a supplier on a sale-or-return basis. On 31 December 2019, 60% of these goods were accepted and sold to customers at a gross profit margin of 25%. Both transactions were made on credit. No entries were made in the books to record the above.

(vi) On 31 December 2019, an allowance for doubtful accounts of 2% had been provided on the total amount of trade receivables as shown in the ageing schedule below:

<u>Age of trade receivables</u>	<u>Amount of trade receivables</u>	<u>Estimated doubtful debts</u>
	\$	
less than 31 days	90 000	1%
31 – 60 days	29 800	3%
over 60 days	<u>10 000</u>	10%
	<u>129 800</u>	

The company eventually decided to provide the allowance for doubtful accounts based on the age of the trade receivables.

#### REQUIRED:

(a) Prepare a statement, commencing with the bank statement balance, to calculate the bank account balance as at 31 December 2019 before updating the above items. (6 marks)

(b) With reference to all the above items, prepare the necessary journal entries to correct items (ii) to (vi). Narrations are not required. (11 marks)

- (B) ABC Company uses material M to manufacture a product. Each unit of product requires 1 kg of M. The purchase price of M is \$50 per kg and the supplier offers a discount of 10% for the quantity purchased in excess of 400 kg. There are 100 kg of M in inventory, which is idle, with an average cost of \$44 per kg. The inventory could be used for production or sold at a scrap value of \$20 per unit.

Recently, the company has received a special order for 500 units of the product.

**REQUIRED:**

- (c) If ABC Company purchases the 500 kg of M from the supplier, calculate the total cost of purchase. (1 mark)
- (d) For the special order for 500 units of the product, if ABC Company purchases 400 kg of M from the supplier and uses the inventory of 100 kg of M for the production, calculate
- (i) the total relevant cost. (1 mark)
- (ii) the total material cost. (1 mark)

(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 (63%)	16.	A (72%)
2.	D (58%)	17.	D (60%)
3.	B (77%)	18.	B (39%)
4.	A (57%)	19.	A (43%)
5.	C (64%)	20.	D (93%)
6.	A (32%)	21.	B (74%)
7.	D (25%)	22.	D (66%)
8.	C (51%)	23.	C (34%)
9.	B (69%)	24.	D (75%)
10.	C (63%)	25.	B (56%)
11.	C (57%)	26.	A (74%)
12.	B (57%)	27.	B (62%)
13.	B (62%)	28.	D (19%)
14.	A (87%)	29.	A (59%)
15.	D (48%)	30.	C (89%)

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

## SECTION B PART 1

### QUESTION 1

Marks

- (a) Contributions: 2
- provide innovative products and services
  - provide specialised products and services to cater for customers' needs
  - provide support and services to large enterprises
- (1 mark for each relevant contribution, max. 2 marks)

- (b) (i) Management by objectives 1

- (ii) Advantages: 4
- subordinates have a better understanding of the objectives
  - subordinates are motivated and more committed
  - monitoring and control of work progress are more effective
- (2 marks for each relevant advantage, max. 4 marks)

7 marks

### QUESTION 2

Marks

- (a) The bank will assess the firm's ability to repay a loan by reviewing the liquidity of the firm. 2

- (b) - Consistency 1
- Chan's firm **should not** change the valuation method as the accounting treatment of items within each accounting period and from one period to another should be the same, unless a change in accounting treatment is necessary or will give a more accurate view of a business 2

5 marks

### QUESTION 3

Marks

- (a) Bank overdraft: 1
- a kind of short-term loan 1
  - the amount withdrawn from bank account is higher than the account balance

- (b) Reasons: 4
- readily available: no need to apply every time
  - flexible repayment arrangements: payment can be made according to his financial position
  - no interest charge if the amount is repaid before the payment due date
- (2 marks for each relevant reason, max. 4 marks)

- (c) Financial needs: 2
- savings for marriage
  - savings for education / training
  - mortgage loan repayment
- (1 mark for each relevant financial need, max. 2 marks)

8 marks

## PART 2

### QUESTION 4

Marks

(A)

(a) Social factors:

– population size / structure

(2 marks for each relevant social factor with explanation, max. 2 marks)

2

Physical factors:

– climate, infrastructure

(2 marks for each relevant physical factor with explanation, max. 2 marks)

2

(4)

(B)

(b) (i)

Capital							
2020	2020		\$	2020		\$	
0.5	March 31	Balance c/d	<u>10 000</u>	March 1	Bank	<u>10 000</u>	0.5
							(1)

(ii)

Wendy				
Trial Balance as at 31 March 2020				
	Dr	Cr		0.5
	\$	\$		0.5
Bank		200		0.5
Equipment	3 000			0.5
Rent	4 000			0.5
Sales		8 000		0.5
Purchases	6 700			0.5
Trade receivables	4 500			0.5
Capital		10 000		0.5
	<u>18 200</u>	<u>18 200</u>		0.5
				(5)

10 marks

# QUESTION 5

Marks

(A)

(a) Joint venture

1

(b) Advantages:

2

- more funds and resources can be contributed by joint venturers
- risk and liabilities can be shared among joint venturers
- more expertise and technology can be pooled

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

(c) Difference:

2

- a partnership operation has no definite time limit while a joint venture is project-based and will be terminated when the project is completed

(2 marks for each relevant difference, max. 2 marks)

(5)

(B)

(d)

Lucy			
Income statement for the year ended 31 December 2019			
	\$	\$	
Sales		790 000	0.5
Less: Returns inwards		<u>4 000</u>	0.5
		786 000	
<u>Less: Cost of goods sold</u>			
Opening inventory	10 000		0.5
Add: Purchases	400 000		0.5
Add: Carriage inwards	<u>8 000</u>		0.5
	418 000		
Less: Returns outwards	<u>4 500</u>	413 500	0.5
Gross profit		372 500	
<u>Less: Expenses</u>			
Carriage outwards	32 000		0.5
Discounts allowed	9 000		0.5
Other operating expenses	<u>87 500</u>	128 500	0.5
Net profit		<u>244 000</u>	0.5
			(5)

10 marks

END OF PAPER 1

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

**SECTION A**

**QUESTION 1**

**Marks**

Transaction		Book of original entry	Account to be debited	Account to be credited	
e.g.	Sold toys on credit	Sales Journal	Trade receivables	Sales	
(i)	Purchased toys in cash	(1) Cash Book	(2) Purchases	Cash	1
(ii)	Returned office equipment to a credit supplier	(3) General Journal	Accounts payables	(4) Office equipment	1
(iii)	Received a bill, to be settled in next financial year, for stationery purchased	(5) General Journal	(6) Stationery expenses	(7) Accrued stationery expenses	1.5
(iv)	Issued a debit note for toys returned	(8) Returns Outwards Journal	(9) Trade payables	(10) Returns outwards	1.5
(v)	Paid rent for owner's personal apartment by cheque	(11) Cash Book	(12) Drawings	Bank	1

(0.5 mark for each item)

6 marks

## QUESTION 2

Marks

(a)

Kam Kee Manufacturing Company			
Statement to calculate the cost to be capitalised for the equipment			
		\$	
Purchase cost (\$500 000 x 80%)		400 000	0.5
Installation cost		5 000	0.5
Testing fee after installation		2 000	0.5
Cost of the equipment to be capitalised		<u>407 000</u>	0.5
			(2)

(b)(i)

(b)(1)		Accumulated depreciation — machine	
		\$	\$
0.5	Disposal — machine	153 540	115 155
			38 385
		<u>153 540</u>	<u>153 540</u>

(ii)

(ii)		Disposal — machine	
		\$	\$
0.5	Machine	432 000	153 540
			Accumulated depreciation — machine
			Insurance compensation receivable (W3)
			Loss on disposal
		<u>432 000</u>	<u>194 922</u>
			<u>83 538</u>
			<u>432 000</u>

W1:	Depreciation for 2018	= (\$432 000 – \$5 500) x 2 700/10 000	= \$115 155
W2:	Depreciation for 2019	= (\$432 000 – \$5 500) x 900/10 000	= \$38 385
W3:	Insurance compensation receivable	= (\$432 000 – \$153 540) x 0.7	= \$194 922

6 marks

### QUESTION 3

Marks

- (a) Number of units remaining unsold =  $(500 + 1\,000) - (350 + 400) = 750$  units

0.5

Unit average cost of closing inventory:

$$= [(500 \times \$35) + \$32\,000] / 1\,500 = \$33/\text{unit}$$

1

Value of closing inventory as at 29 February 2020:

$$= (650 \times \$33) + (100 \times \$30) \text{ or } (750 \times \$33) - (100 \times \$3) = \$24\,450$$

1.5

(3)

- (b)

Andy Company		
Income statement for the month ended 29 February 2020 (extract)		
	\$	\$
Sales $[(350 \text{ units} \times \$45) + (400 \text{ units} \times \$39)]$		31 350
Less: Cost of goods sold		
Opening inventory	17 500	
Add: Purchases	32 000	
	49 500	
Less: Closing inventory	24 450	25 050
Gross profit		6 300

0.5

0.5

0.5

0.5

(2)

- (c) No, as the inventory should be valued at the lower of cost and net realisable value.

(1)

6 marks

### QUESTION 4

Marks

- (a) Variable component of electricity expenses =  $(\$9\,800 - \$2\,600) / (12\,000 - 3\,000) \text{ units} = \$0.8/\text{unit}$

1

$$\text{Fixed component of electricity expenses} = \$9\,800 - (\$0.8 \times 12\,000 \text{ units}) \text{ or } \$2\,600 - (\$0.8 \times 3\,000 \text{ units}) = \$200$$

1

(2)

- (b) Contribution margin per unit (Quarter 1):  $\$9 - (\$3\,600 \div 3\,000) - (\$6\,000 \div 3\,000) - \$0.8 = \$5/\text{unit}$

(2)

- (c) Breakeven point in quantity (Quarter 1):  $(\$3\,000 + \$7\,000 + \$200) / \$5 = 2\,040 \text{ units}$

(2)

6 marks

## SECTION B

### QUESTION 5

Marks

(a)

Statement to calculate the shareholders' funds as at 31 December 2019

	\$	\$	
Ordinary share capital		900 000	0.5
Preference share capital		200 000	0.5
		<u>1 100 000</u>	
General reserve		100 000	0.5
		<u>1 200 000</u>	
Retained profits as at 1 January 2019	210 000		
Add: Net profit after tax	<u>80 200</u>		
	290 200		
	<u>21 500</u>		
Less: Dividend for 2019 (\$13 500 + \$8 000)		268 700	2
Retained profit as at 31 December 2019		<u>1 468 700</u>	0.5
Shareholders' funds as at 31 December 2019			(4)

- (b) (i) gearing ratio:  

$$= (\text{Non-current liabilities} + \text{Preference share capital}) / (\text{Non-current liabilities} + \text{Shareholders' funds}) \times 100\%$$

$$= \frac{(\$280\,000 + \$200\,000)}{(\$280\,000 + \$1\,468\,700)} \times 100\%$$

$$= 27.45\%$$
2

- (ii) earnings per share:  

$$= (\text{Net profit after tax} - \text{Preference dividend}) / \text{Number of ordinary shares issued}$$

$$= \frac{(\$80\,200 - \$8\,000)}{45\,000}$$

$$= \$1.60$$
2

- (iii) dividend cover for ordinary shares:  

$$= (\text{Net profit after tax} - \text{Preference dividend}) / \text{Ordinary dividend}$$

$$= \frac{(\$80\,200 - \$8\,000)}{\$13\,500}$$

$$= 5.35 \text{ times}$$
2  
(6)

- (c) Financing method:  
- issue of ordinary shares 1

Explanation:

- this will lower the gearing ratio and the solvency of the company will be enhanced
- as there is no need to repay the issued ordinary share capital, the solvency of the company will not deteriorate

(1 mark for relevant explanation, max. 1 mark)

1

(2)

12 marks

QUESTION 6

Marks

(a)

		Realisation			
2020		\$	2020	\$	\$
Jan 1			Jan 1		
0.5	Furniture	468 000	Bank: furniture (\$468 000 x 70%)	327 600	0.5
0.5	Office equipment	180 000	Bank: inventory	10 000	0.5
0.5	Inventory	53 500	Loan from Tim	31 000	0.5
0.5	Trade receivables	36 500	Capital - Sum	30 500	0.5
0.5	Bank : scrap charge	23 400	Trade payables: discounts received	1 060	0.5
0.5	Bank : realisation expenses	6 800	(\$53 000 x 40% x 5%)		
			Loss on realisation:		
			Capital - Yip (1/6)	61 340	
			Capital - Tim (2/6)	122 680	
			Capital - Sum (3/6)	184 020	368 040
		<u>768 200</u>		<u>768 200</u>	0.5

(6)

(b)

		Capital				
2020		Yip	Tim	Sum	2020	Yip
Jan 1		\$	\$	\$	Jan 1	\$
0.5	Current account	34 300			Balance b/d	80 000
0.5	Realisation			30 500	Current account	47 700
0.5	Realisation	61 340	122 680	184 020	Capital - Tim	7 820
1	Capital - Yip		7 820	7 820	Capital - Sum	7 820
1	Bank		107 200	106 260		
		<u>95 640</u>	<u>237 700</u>	<u>328 600</u>		<u>95 640</u>
						<u>237 700</u>
						<u>328 600</u>

(5)

11 marks

Reference:

		Bank	
2020		\$	2020
Jan 1			\$
	Realisation: furniture	327 600	Balance b/d
	Realisation: inventory	10 000	Realisation: scrap charge
			Trade payables (\$53 000 – \$1 060)
			Realisation: realisation expenses
			Capital - Tim
			Capital - Sum
		<u>337 600</u>	<u>337 600</u>

# QUESTION 7

Marks

- (a)(i) Predetermined fixed manufacturing overheads absorbed per unit:  $\$150\,000/10\,000 \text{ hours} \times 10 \text{ hours} = \$150/\text{unit}$  1
- (ii) Selling price per unit:  $(\$474 - \$150)/(1 - 0.4) = \$540$  1
- (iii) Selling expenses per unit:  $(\$474 - \$150) \times 10\% = \$32.4$  1  
(3)

(b)

Lucky Company Income statement for the quarter ended 31 March 2020			
	\$	\$	
Sales (700 units x \$540)		378 000	0.5
<u>Less: Cost of goods sold</u>			
Production cost [1 000 units x (\$474 - \$32.4)]	441 600		1
Less: Closing inventory [300 units x (\$474 - \$32.4)]	<u>(132 480)</u>		0.5
	309 120		
Add: Under-absorbed fixed manufacturing overheads	<u>8 000</u>	(317 120)	1
Gross profit		60 880	0.5
Less: Selling expenses (700 units x \$32.4)		<u>(22 680)</u>	0.5
Net profit		<u>38 200</u>	1 (5)

- (c) – under marginal costing system, fixed manufacturing overheads are expensed in full as a period cost 1
- net profit would be lowered 1
- by \$45 000 [(1 000 – 700) units x \$150] 1  
(3)
- (d) Matching concept: links revenue with its related expenses and costs 1
- under absorption costing system, both fixed and variable production costs are included in the cost of goods sold, which allows the matching of revenues with the total production costs when the goods are sold 1  
(2)

13 marks

# SECTION C

## QUESTION 8

Marks

(A)

(a)

Mr Lau

Income statement for the year ended 31 December 2019

	\$	\$	\$	
Sales (\$994 500 + \$185 550) (W1)			1 180 050	1.5
Less: Returns inwards			24 000	0.5
			<u>1 156 050</u>	
<u>Less: Cost of goods sold</u>				
Opening inventory		40 000		0.5
Add: Purchases (W2)	858 800			1
Less: Returns outwards	<u>16 500</u>	<u>842 300</u>		0.5
		882 300		
Less: Closing inventory		<u>65 000</u>		0.5
		817 300		
Less: Inventory loss (Balancing figure)		<u>46 600</u>		
			<u>770 700</u>	
Gross profit (\$1 156 050 x 50% ÷ 150%)			385 350	0.5
Add: Bad debts/Reduction in bad debts (\$2 000 – \$1 790) (W3)			<u>210</u>	0.5
			385 560	
<u>Less: Expenses</u>				
Operating expenses (\$150 000 – \$3 000)		147 000		0.5
Administrative expenses (\$160 000 + \$21 500 – \$4 300 – \$7 200)		170 000		1
Inventory loss [\$46 600 x (1 – 75%)]		11 650		1
Loss on disposal of equipment (\$25 000 – \$16 425 – \$2 100)		6 475		1
Depreciation expenses – Equipment				
[( \$1 250 000 – \$517 075 – \$8 575 + \$36 200) x 30%]		<u>228 165</u>	<u>563 290</u>	1
Net loss			<u>(177 730)</u>	(10)

QUESTION 8 (con't)

Marks

		Mr Lau	
(b)		Statement of financial position as at 31 December 2019	
		\$	\$
<b>Non-current assets</b>			
Equipment (\$1 250 000 – \$25 000 + \$36 200)			1 261 200 0.5
Less: Accumulated depreciation (\$517 075 – \$16 425 + \$228 165)			<u>728 815</u> 0.5
			532 385
<b>Current assets</b>			
Inventory	65 000		0.5
Prepaid expenses (\$3 000 + \$7 200)	10 200		0.5
Trade receivables, net (\$179 000 – \$1 790)	177 210		1
Insurance compensation receivable (\$46 600 x 75%)	34 950		0.5
Bank (W4)	107 500		1
Cash	<u>8 050</u>		0.5
	402 910		
<b>Less: Current liabilities</b>			
Trade payables	120 000		0.5
Accounts payables (\$36 200 – \$2 100)	<u>34 100</u>	<u>248 810</u>	0.5
		<u>781 195</u>	
<b>Financed by</b>			
Capital, balance as at 1 January 2019 (W5)		1 000 925	1
Less: Net loss		<u>177 730</u>	0.5
		823 195	
Less: Drawings		<u>42 000</u>	0.5
		<u>781 195</u>	
			(8)
(B) Transactions:			(2)
-	capital injection in cash		
-	obtaining of a bank loan		
-	receipts from trade receivables		
(1 mark for each relevant transaction, max. 2 marks)			

20 marks

**Workings:**

W1:		Trade receivables	
2019	\$	2019	\$
Balance b/d	158 500	Bank	950 000
Sales: credit sales (Balancing figure)	994 500	Returns inwards	24 000
	<u>1 153 000</u>	Balance c/d	179 000
			<u>1 153 000</u>
		Cash	
2019	\$	2019	\$
Balance b/d	6 000	Bank	120 000
Sales: cash sales (Balancing figure)	185 550	Drawings (\$3 500 x 12)	42 000
	<u>191 550</u>	Administrative expenses	21 500
		Balance c/d	8 050
			<u>191 550</u>
W2:		Trade payables	
2019	\$	2019	\$
Bank	840 000	Balance b/d	117 700
Returns outwards	16 500	Purchases (balancing figure)	858 800
Balance c/d	<u>120 000</u>		
	<u>976 500</u>		<u>976 500</u>
W3:		Allowance for doubtful accounts	
2019	\$	2019	\$
Bad debts	210	Balance b/d	2 000
Balance c/d	<u>1 790</u>		
	<u>2 000</u>		<u>2 000</u>
W4:		Bank	
2019	\$	2019	\$
Balance b/d	187 500	Operating expenses	150 000
Cash	120 000	Administrative expenses	160 000
Trade receivables	950 000	Trade payables	840 000
	<u>1 257 500</u>	Balance c/d (Balancing figure)	107 500
			<u>1 257 500</u>
W5:		Statement of affairs as at 1 January 2019	
		\$	\$
Equipment, net (\$1 250 000 – \$517 075)			732 925
Inventory			40 000
Trade receivables, net (\$158 500 – \$2 000)			156 500
Bank			187 500
Cash			6 000
			<u>1 122 925</u>
Trade payables	117 700		
Accrued administrative expenses	<u>4 300</u>		122 000
Capital			<u>1 000 925</u>

# QUESTION 9

Marks

(A)(a) Statement to calculate the bank account balance before updating as at 31 December 2019

	\$	\$	
Bank statement balance		259 465	0.5
Add: (2) Uncredited cheques	47 900		0.5
(3) Bookkeeper's error on recording dishonoured cheque	56 970		1
(4) Interest expense	1 795	106 665	0.5
		<u>366 130</u>	
Less: (1) Stale cheque (#418226)	23 615		1
(1) Unpresented cheque (#471218)	71 620		0.5
(1) Post-dated cheque (#473006)	9 600	104 835	1
Bank account balance		<u>261 295</u>	1
			(6)

(b) The Journal

	Dr.	Cr.	
	\$	\$	
(ii) Sales	3 480		0.5
Suspense		3 480	1
(iii) Suspense	1 220		1
Returns outwards		835	0.5
Returns inwards		385	0.5
(iv) Accumulated depreciation – Equipment	15 000		1
Depreciation expenses – Equipment		15 000	1
(v) Purchases (\$45 000 x 60%)	27 000		0.5
Trade payables		27 000	1
Trade receivables	36 000		1
Sales [\$27 000 ÷ (1 – 25%)]		36 000	0.5
(vi) Bad debts	6 255		0.5
Allowance for doubtful accounts		6 255	2
[((\$90 000 + \$36 000) x 1% + (\$29 800 x 3%) + (\$10 000 + \$56 970) x 10% – (\$129 800 x 2%)]			(11)
(\$1 260 + \$894 + \$6 697 – \$2 596)			

- (B) (c) Total cost of purchase:  
 $(400 \text{ kg} \times \$50) + (100 \text{ kg} \times \$45) = \$24\,500$  1
- (d)(i) Total relevant cost:  
 $(400 \text{ kg} \times \$50) + (100 \text{ kg} \times \$20) = \$22\,000$  1
- (d)(ii) Total material cost:  
 $(400 \text{ kg} \times \$50) + (100 \text{ kg} \times \$44) = \$24\,400$  1  
 (3)

20 marks

End of Paper 2A