

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 statements about the World Trade Organization is/are correct?
- (1) It enforces the rules of international trade among members.
 - (2) It helps developing countries increase their trading opportunities.
 - (3) It eliminates trade barriers among members.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
2. Product departmentalisation means _____.
- A. different departments serve customers of different countries
 - B. different product lines are developed for different markets
 - C. workers are divided according to the stage of production
 - D. the production, marketing and other related tasks of a product are grouped under a manager
3. At the end of the year, the bookkeeper of a retail store balanced off the accounts, listed the account balances and prepared a trial balance. Which of the following accounting functions did the bookkeeper perform?
- A. recording
 - B. classifying
 - C. summarising
 - D. communicating
4. Mandy is considering investing in a 3-year project with the following details:
- | | <u>Cash inflows/(outflows)</u> |
|---------------------|--------------------------------|
| | \$ |
| Beginning of Year 1 | (70 000) |
| Beginning of Year 2 | 25 000 |
| Beginning of Year 3 | 35 000 |
- The scrap value at the end of the project is \$20 000. The discount rate is 5% per annum. What is the net present value of the project?
- A. -\$14 445
 - B. \$187
 - C. \$2 832
 - D. \$3 520
5. Which of the following is **not** a benefit of delegation?
- A. increases subordinates' job satisfaction
 - B. improves the relationship between superior and subordinates
 - C. provides training opportunities for subordinates
 - D. allows superiors to focus on important tasks

6. On 1 February 2021, Mr Lee set up a retail firm selling computers. On the same day, the firm purchased ten sets of computers on credit from a supplier at a cost of \$4 500 each. During February, two sets of damaged computers were returned to the supplier and three sets of computers were sold at a selling price of \$7 000 each.

What is the balance of the purchases account of the firm as at 28 February 2021?

- A. \$22 500
B. \$31 500
C. \$36 000
D. \$45 000
7. Which of the following is/are legal factor(s) affecting the operations of a restaurant in Hong Kong?
- (1) There is an increase in the minimum wage rate.
(2) The number of people participating in group gatherings in any public places is restricted because of the spread of COVID-19.
(3) There is a decrease in the Consumer Price Index.
- A. (1) only
B. (2) only
C. (3) only
D. (1) and (2) only
8. Which of the following is a benefit brought about by the respective principle of effective management?

	<u>Principle</u>	<u>Benefit</u>
A.	balancing authority and responsibility	improve communication between employees
B.	division of work	reduce production delays
C.	unity of command	less confusions in work
D.	management by objectives	reduce administrative work

9. The following is a list of all account balances of Lee's firm as at 31 December 2020:

	\$
Accounts receivables	55 000
Bank overdraft	2 500
Inventory	21 200
Loan to Mr Chan	18 000
Cash	23 000
Accounts payables	42 300
Equipment	121 000
Capital	?

What is the balance of the capital account as at 31 December 2020?

- A. \$157 400
B. \$162 400
C. \$193 400
D. \$198 400
10. Which of the following is a difference between a bank overdraft and a personal loan?

	<u>Bank overdraft</u>	<u>Personal loan</u>
A.	interest rate	lower
B.	repayment arrangement	flexible
C.	pre-approved credit limit	no
D.	monthly minimum payment	yes

11. Which of the following will reduce the gross profit of a firm?
- (1) drawing of goods
 - (2) increase in carriage inwards
 - (3) increase in electricity expenses
- A. (1) only
B. (2) only
C. (3) only
D. (1) and (2) only
12. Which of the following are the characteristics of a public corporation?
- (1) The government participates in its daily operations.
 - (2) The chairperson of the board of directors is appointed by the government.
 - (3) It is a separate legal entity.
- 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 a trial balance is/are correct?
- (1) If the trial balance agrees, there are no errors in the account balances.
 - (2) The trial balance shows all the account balances of a firm.
 - (3) If the total of the debit side of an account is smaller than the credit side, the account balance is shown in the credit column of a trial balance.
- A. (1) only
B. (2) only
C. (1) and (3) only
D. (2) and (3) only
14. Which of the following will have an adverse impact on the credit rating of a person?
- (1) A person has a bankruptcy record.
 - (2) A person failed to meet the loan repayment schedule before.
 - (3) A person has been unemployed for more than 1 year.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
15. Which of the following about the statement of financial position is/are correct?
- (1) It reveals the liquidity of a firm.
 - (2) Non-current assets are listed according to their total amounts in descending order.
 - (3) It reveals the financial status of a firm for a period of time.
- A. (1) only
B. (2) only
C. (1) and (3) only
D. (2) and (3) only

16. Which of the following firms are fulfilling their social responsibility towards stakeholders during the spread of COVID-19?

- (1) An interior design company which allows its employees to work from home.
- (2) A restaurant which offers discounts to dine-in customers.
- (3) A publisher which allows the public to read its books online free of charge.

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

17. A newly-established electric car manufacturer sets the following target:

‘We shall become the leader in the electric car market next year.’

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

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

18. On 31 December 2020, Sunview Company decided to close the business three months later. On that date, its non-current assets were recorded at \$3 800 000 and its liquidation value was \$2 098 000.

According to the _____, the value of the non-current assets shown in the statement of financial position of Sunview Company as at 31 December 2020 should be _____.

- A. going concern assumption \$2 098 000
- B. going concern assumption \$3 800 000
- C. historical cost concept \$2 098 000
- D. historical cost concept \$3 800 000

19. What is the main reason for a business to compile a code of ethics?

- A. This is required by law.
- B. This could reduce the cost of production.
- C. This could improve the firm’s image and maximise its profit.
- D. This provides rules and standards for employees.

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

- (1) Employees can make voluntary contributions in addition to mandatory contributions to the MPF scheme.
 - (2) Mr Lam is a 68-year-old taxi driver with a monthly income of \$10 000. He is required to contribute \$500 each month to the MPF scheme.
 - (3) Mr Chan is a self-employed hawker who earned a net income of \$120 000 last year. He was required to contribute \$6 000 to the MPF scheme.
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

21. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong is correct?

- A. The scale of an SME is so small that it cannot practise division of work.
- B. The owners enjoy limited liability.
- C. Most of them are engaged in secondary industries.
- D. Enterprises in the non-manufacturing sector with fewer than 50 employees are SMEs.

22. Information about Shun Kee and Kam Kee for the year ended 31 December 2020 is shown below:

	Shun Kee	Kam Kee
	\$000'	\$000'
Sales	8 800	15 000
Cost of goods sold	2 400	2 600
Operating expenses	2 800	9 800

Based on the information above, which of the following statements is correct?

- A. Kam Kee had a lower gross profit.
- B. Kam Kee had a higher return on capital employed.
- C. Kam Kee had better control over operating expenses.
- D. Kam Kee had a lower net profit ratio.

23. Which of the following statements about debentures are correct?

- (1) Investors with lower risk tolerance level usually prefer investing in debentures to stocks.
 - (2) Debenture holders will receive higher interest if the market interest rate increases.
 - (3) Repayment of principal is made to debenture holders on the maturity date.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

24. Which of the following is/are benefit(s) to Hong Kong brought about by globalisation?

- (1) easier to recruit experts from overseas
 - (2) cheaper supplies of materials
 - (3) reduce competition among firms
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1) and (2) only

25. The production manager of a factory decided to produce 1 000 units of products by the end of 2021. He has arranged the production schedule and deployed the necessary resources and manpower. Which step in the planning process will be undergone next?

- A. evaluate alternatives
- B. formulate the action plan
- C. implement the action plan
- D. set the goal

26. Which of the following double entries is/are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Purchased a motor van by cheque from Silver Company	Motor vans	Silver Company
(2)	Received commission by cheque from Mr Leung	Bank	Commission income
(3)	The owner paid the rental expenses of the firm with his personal cheque	Rental expenses	Capital
A.	(1) only		
B.	(2) only		
C.	(2) and (3) only		
D.	(1), (2) and (3)		

27. Ben has just retired. He wants to invest his provident fund to earn a stable income. Which of the following financial instruments is most suitable to him?

- A. constituent stocks of the Hang Seng Index
- B. stocks listed on GEM
- C. term deposits
- D. savings deposits

28. A Mainland frozen food company plans to establish a branch in Hong Kong. Which of the following is/are the support provided by the company's information manager to the marketing manager?

- (1) process data about the frozen food market in Hong Kong
- (2) collect information about suppliers of freezing systems
- (3) set up a salary scheme for the salespersons
- A. (1) only
- B. (1) and (2) only
- C. (2) and (3) only
- D. (1), (2) and (3)

29. Which of the following is an example of a real account?

- A. purchases account
- B. trade receivables account
- C. discounts allowed account
- D. electricity expenses account

30. Assuming the interest on an investment project is compounded semi-annually, which of the following statements about its nominal rate of return and effective rate of return are correct?

- (1) The effective rate of return of the project is higher than its nominal rate of return.
- (2) The effective rate of return of the project will be higher if its interest is compounded quarterly instead.
- (3) The effective rate of return of the project will be lower if the investment amount is lower.
- 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. David and Raymond operate a media service business with offices in Hong Kong and other Asian countries. If a shareholder wants to transfer his shares to new investors, approval must be obtained from the board of directors. To help with expansion, David suggests changing the form of business ownership so that more funds can be raised from issuing shares to the public. However, Raymond worries that the new form of business ownership will have some disadvantages for the business, as compared with the existing form.
 - (a) Explain whether the above business is a multinational corporation. (2 marks)
 - (b)
 - (i) Identify the current form of ownership of the media service business. (1 mark)
 - (ii) Explain two disadvantages of the new form of business ownership, as compared with the existing form. (4 marks)

2. Jenny is an inexperienced investor. Recently, her friend recommended buying the shares of a real estate development company. The company operates shopping malls and hotels in Hong Kong. Its shares is one of the constituent stocks of the Hang Seng Index.
 - (a)
 - (i) What does the Hang Seng Index reflect? (1 mark)
 - (ii) Give one way that Jenny can use the Hang Seng Index to make investment decisions. (1 mark)
 - (b) Ignoring other factors, explain how the following situation may affect the share price of the real estate development company:

When the epidemic eased, the government removed the entry restriction for non-local residents implemented during the spread of COVID-19.

(3 marks)
 - (c) List two Jenny's rights as a share investor. (2 marks)

3. Jeffery commenced a firm as a sole trader on 1 April 2021 with \$80 000. The following is the bank account of the firm for April:

Bank					
2021			2021		
		\$			\$
Apr 1	Capital	80 000	Apr 5	Rental expenses	37 000
Apr 18	Sales	15 000	Apr 19	Equipment	62 000

- (a) Based on the above account, prepare two relevant nominal accounts to complete the double entries. Balancing off the accounts is not required. (2 marks)
- (b) Prepare an extract of the statement of financial position for Jeffery as at 30 April 2021 to present the bank account balance and its classification. (2 marks)

On 1 May 2021, Jeffery purchased a second-hand motor car on credit at \$50 000 for his personal use. The bookkeeper of the firm recorded the transaction as follows:

Other payables					
			2021		
					\$
			May 1	Motor cars	50 000

Motor cars					
2021					
		\$			
May 1	Other payables	50 000			

- (c) Explain the accounting principle or concept that has been violated in the above case. (2 marks)

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

4.

- (A) Chan Kee is a shop selling household products. The account balances as at 31 December 2020 extracted from its books were as follows:

	\$
Bank loan (due in March 2021)	30 000
Bank	20 000
Fixed deposit (for 6 months)	50 000
Inventory	180 000
Trade payables	100 000
Trade receivables	120 000

In 2020, the industry averages of the working capital ratio and acid test ratio were 1.9:1 and 1.0:1 respectively.

- (a) Calculate (to two decimal places) the following ratios for 2020 for Chan Kee:
- (i) working capital ratio
 - (ii) acid test ratio (2 marks)
- (b) Briefly comment on the liquidity of Chan Kee on 31 December 2020. (3 marks)
- (B) Fancy Company sells computers and accessories. At the beginning of 2021, the General Manager of the company announced its goal to cut its overall costs by 30% in one year. To achieve the goal, the marketing department reduced the budgeted promotion expenses by 25%; the operations department sourced cheaper suppliers in order to reduce the total purchase cost by 15%; and the human resources department planned to streamline the company's structure to save 20% of the labour costs.
- (c) (i) Apart from division of work, state the principle of effective management that has been applied in the above case. (1 mark)
- (ii) Explain two advantages for Fancy Company of applying the principle of effective management in (c)(i) above. (4 marks)

(Total: 10 marks)

5.

- (A) Mr Wong started a garment firm on 1 April 2021. The following balances were obtained from the books as at 30 April 2021:

	\$
Carriage outwards	1 300
Discounts received	800
Purchases	80 000
Sundry expenses	23 475
Returns inwards	1 500
Sales	103 500

The inventory as at 30 April 2021 was valued at \$18 000.

- (a) Prepare an income statement for the month ended 30 April 2021. (5 marks)
- (b) Explain one use to the government of the income statement of a business. (1 mark)
- (B) Lucky Company is a small and medium enterprise with three departments: human resources department, marketing department and production department.
- (c) Draw an organisation chart to show the departmentalisation of Lucky Company. (1 mark)
- (d) (i) Which department manager in Lucky Company possesses both line authority and staff authority? (1 mark)
- (ii) Explain how the manager mentioned in (d)(i) above exercises line authority and staff authority. (2 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 Section A are compulsory. You are required to **answer two of the three questions in Section B** and 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, weighting 30%)

Answer **ALL** questions in this section.

1. The following information is about Nancy Company for the year ended 31 December 2020:

(i) The summary of receipts for rental income is as follows:

<u>Rental period</u>	<u>Receipt date</u>	<u>\$</u>
1 September 2019 - 29 February 2020	11 November 2019	390 000
1 March 2020 - 31 August 2020	2 April 2020	390 000
1 September 2020 - 28 February 2021	10 January 2021	429 000

From 1 September 2020, there was an increase in monthly rental income.

(ii) The summary of payments for fixed repair and maintenance expenses is as follows:

<u>Service period</u>	<u>Payment date</u>	
1 November 2019 - 31 January 2020	31 January 2020	} Total amount paid in 2020 was \$65 520
1 February 2020 - 30 April 2020	30 April 2020	
1 May 2020 - 31 July 2020	31 July 2020	
1 August 2020 - 31 October 2020	31 October 2020	
1 November 2020 - 31 January 2021	3 February 2021	

From 1 August 2020, the monthly repair and maintenance expenses increased by 20%.

REQUIRED:

Write your answers for items (A) to (N) in the answer book.

(8 marks)

<u>Rental income</u>					
<u>2020</u>	<u>Details</u>	<u>\$</u>	<u>2020</u>	<u>Details</u>	<u>\$</u>
31 Dec	F	G	1 Jan	Balance b/d	A
			2 Apr	B	C
			31 Dec	D	E
		<u>?</u>			<u>?</u>

<u>Repair and maintenance expenses</u>					
<u>2020</u>	<u>Details</u>	<u>\$</u>	<u>2020</u>	<u>Details</u>	<u>\$</u>
31 Jan	Bank	I	1 Jan	Balance b/d	H
30 Apr	Bank	I	31 Dec	M	N
31 Jul	Bank	I			
31 Oct	Bank	J			
31 Dec	K	L			
		<u>?</u>			<u>?</u>

(Total: 8 marks)

2. The cash at bank account of Teddy Limited for December 2020 is as follows:

Cash at bank					
2020		\$	2020	Cheque No.	\$
Dec 1	Balance b/d	2 208	Dec 12	Gigi Limited	321012 12 400
Dec 25	Pearl Company	29 200	Dec 15	Y&Y Limited	321013 25 213
Dec 25	Amazing Company	856	Dec 29	Salaries	321014 11 000
Dec 28	Fanny Company [note (i)]	7 210			
Dec 31	Kitty Limited	3 510			
Dec 31	Balance c/d	5 629			
		<u>48 613</u>			<u>48 613</u>

The bank statement for December 2020 is as follows:

Date	Description	Withdrawal	Deposit	Balance
2020		\$	\$	\$
Dec				
1	Balance b/d			2 208
10	Credit transfer: Sunny Limited		43 520	45 728
15	Direct debit - electricity expenses	2 830		42 898
20	Cheque - 321013	25 213		17 685
25	Cheque deposits		30 056	47 741
28	Dividend		2 472	50 213
30	Bank charges	125		50 088
30	Cheque - 321014	11 000		39 088

Note:

- (i) On 28 December 2020, a cheque dated 3 January 2021 from a customer, Fanny Company, had been received. The cheque was paid for the service to be provided by Teddy Limited in January 2021.

REQUIRED:

- (a) Update the cash at bank account of Teddy Limited. (4 marks)
- (b) Prepare a bank reconciliation statement as at 31 December 2020. (2 marks)
- (c) Briefly explain, with the most relevant accounting principle or concept, whether the receipt in note (i) should be recorded as revenue in the year 2020 by Teddy Limited. (2 marks)

(Total: 8 marks)

3. Megan Company produces and sells three kinds of water sports gears: paddles, kayaks and surfboards. The proportion of sales quantity of paddles and kayaks is maintained at a sales mix ratio of 2:1. Budgeted figures for the products for next year are as follows:

	Paddle	Kayak	Surfboard
Unit of production and sales	5 000 units	2 500 units	4 000 units
Selling price per unit	\$80	\$500	\$400
Direct material cost per kg	\$50	\$75	\$60
Direct materials per unit	0.5 kg	4 kg	2 kg
Direct labour cost per unit	\$4	\$12	\$70
Selling expenses per unit	\$1	\$18	\$10
Fixed manufacturing overhead costs	\$120 000	\$120 000	\$960 000

REQUIRED:

- (a) Calculate:

(1) the production cost per unit of surfboards.

(2) the contribution margin per sales mix of paddles and kayaks.

(3 marks)

- (b) Assuming 3 000 units of kayaks will be sold next year, and the sales mix ratio of paddles and kayaks will be maintained, calculate the sales quantity of surfboards at which Megan Company will break even.

(2 marks)

- (c) Assuming 4 920 units of surfboards will be sold next year, and the sales mix ratio of paddles and kayaks will be maintained, calculate the sales quantity of paddles at which Megan Company will achieve a target profit of \$270 000.

(3 marks)

(Total: 8 marks)

SECTION B (24 marks, weighting 45%)

Answer **TWO** questions in this section.

4. The account balances of Jacky Company as at 1 March 2021 are as follows:

	\$	
Bank	800	Cr
Cash	18 500	
Trade receivables - Mandy	5 600	
Trade payables - Vincy	4 880	
Inventory (550 units)	16 500	
Prepaid operating expense (for March)	1 000	

The company uses the weighted average cost method for inventory valuation.

The transactions of Jacky Company during March 2021 are as follows:

March

- 2 Mandy settled the balance on 1 March by cheque with a cash discount of 5%.
- 3 Paid \$2 400 cash to Vincy to settle half of the outstanding amount on 1 March.
- 6 Purchased goods of \$32 each from Paul by cheque for \$14 400.
- 8 Purchased 2 000 units of goods from Perry on credit. The unit list price and trade discount were \$36 and 5% respectively.
- 10 A customer, Suki, purchased 220 units of goods at \$55 each by cheque.
- 15 A customer, Susan, purchased 1 800 units of goods on credit at \$54 each. She would receive a cash discount of 4% for settlement within 15 days.
- 20 Susan returned 300 units of goods purchased on 15 March.
- 24 Susan settled the outstanding amount by cheque.
- 25 Paid \$12 300 operating expenses for March in cash.
- 31 Paid carriage inwards of \$2 700 for March by cheque.

REQUIRED:

- (a) Prepare a three-column cash book for the month ended 31 March 2021. (6 marks)
- (b) Prepare an income statement for the month ended 31 March 2021. (6 marks)

(Total: 12 marks)

5. Tracy operates a business as a sole trader. The account balances as at 1 April 2020 are extracted as follows:

	\$
Trade receivables	25 000
Trade payables	16 000
Inventory	22 000
Bank	355 900
Cash	49 600

Information relating to the transactions made during the year ended 31 March 2021 is as follows:

- (i) All sales and 75% of purchases were made on credit. All goods were sold at a uniform mark-up of 200%.
- (ii) Total sales amounted to \$320 000.
- (iii) Credit notes issued amounted to \$5 600.
- (iv) Except cash purchases, all receipts and payments were made through the bank as shown below:

	\$
Receipts from trade receivables	298 000
Payments to trade payables	80 000
Payments for operating expenses	150 000

- (v) Ken is both a customer and a supplier of Tracy. On 25 March 2021, they agreed to set off \$320 in the trade receivables account against the trade payables account in Tracy's books.
- (vi) The physical inventory count took place on 6 April 2021 and the amount of inventory was \$34 000. From 1 April to 6 April 2021, goods with a cost of \$15 000 were sold, goods amounting to \$13 000 were purchased and returns outwards were \$2 000.
- (vii) A warehouse was rented for storing goods at a monthly rental of \$7 500. The bookkeeper had overlooked this and the rental for March was paid in April 2021.

REQUIRED:

Prepare:

- (a) the trade receivables account for the year ended 31 March 2021. (3 marks)
- (b) a statement to calculate the total purchases for the year ended 31 March 2021. (3 marks)
- (c) the trade payables account for the year ended 31 March 2021. (2 marks)
- (d) a statement to calculate the working capital as at 31 March 2021 by listing the components of total current assets and total current liabilities. (4 marks)

(Total: 12 marks)

6. Macy Limited manufactures three products: X, Y and Z. The company keeps no inventory of materials and completed goods. The budgeted figures for the coming quarter are as follows:

Product	Note	X	Y	Z
Sales quantity (units)		240 000	120 000	20 000
Direct labour hours required per unit		0.2 hour	0.15 hour	0.1 hour
Unit contribution margin		\$2.7	\$2.45	\$4.2
		\$	\$	\$
Sales		2 400 000	1 320 000	340 000
Costs:				
Direct materials		600 000	420 000	160 000
Direct and indirect labour	(i)	1 060 000	460 000	140 000
Fixed and variable manufacturing overheads	(ii)	480 000	390 000	80 000
		2 140 000	1 270 000	380 000
Profit / (Loss)		260 000	50 000	(40 000)

Notes:

- (i) Direct labour cost is budgeted at \$20 per labour hour, whereas indirect labour cost is fixed.
- (ii) Budgeted total fixed manufacturing overheads for the coming quarter was \$456 000, which would be allocated to products X, Y and Z on the basis of units sold.

REQUIRED:

- (a) Calculate the following for Macy Limited for the coming quarter: (5 marks)
- (1) the total indirect labour cost, showing the amounts to be shared by products X, Y and Z respectively.
 - (2) the fixed manufacturing overheads to be allocated to products X, Y and Z respectively, basing on the budgeted total amount in note (ii) above.
 - (3) the unit variable manufacturing overheads for products X, Y and Z respectively.

The marketing manager proposed discontinuing the production of Product Z and switching the capacity to produce an additional 10 000 units of Product X.

- (iii) Increasing the production of Product X would decrease its selling price by 2%.
- (iv) A worker earning \$12 000 per month would be laid off after the discontinuation of Product Z. Direct labour cost per unit of Product X would increase by 1%.
- (v) Based on the budgeted total amount in note (ii) above, 38% of the fixed manufacturing overheads allocated to Product Z would be saved.

REQUIRED:

- (b) If the above proposal is accepted,
- (1) calculate the unit contribution margin of Product X. (2 marks)
 - (2) prepare a statement to calculate the total profit or loss for the coming quarter. Start with the total contribution margins of Product X and Product Y. (4 marks)
- (c) Briefly explain whether Macy Limited should accept the above proposal. (1 mark)

(Total: 12 marks)

SECTION C (20 marks, weighting 25%)

Answer **ONE** question in this section.

7. The trial balance of Holly Limited as at 31 December 2020 is shown below:

	\$	\$
Purchases and Sales	2 736 000	4 080 000
Debenture interest	18 000	
Rent and rates	360 000	
Salaries	190 000	
Office equipment	1 970 000	
Accumulated depreciation - office equipment, 1 January 2020		962 000
Motor vans	980 000	
Accumulated depreciation - motor vans, 1 January 2020		528 000
Inventory, 1 January 2020	119 000	
Bank	424 000	
Trade receivables and Trade payables	1 577 000	598 000
2019 Final dividend	220 000	
2020 Interim dividend	150 000	
Retained profits, 1 January 2020		546 000
General reserves		150 000
8% Debentures (maturity date: 30 September 2021)		300 000
Application monies for ordinary shares		180 000
Ordinary share capital		1 400 000
	<u>8 744 000</u>	<u>8 744 000</u>

Additional information:

- (i) Based on the physical inventory count, the value of the inventory as at 31 December 2020 was \$135 000. It was discovered that some goods costing \$32 000 had been damaged and could be sold for \$26 200 only after having them repaired at \$2 200 in January 2021.
- (ii) In December 2020, goods invoiced at \$45 000 were sent to a customer on a sale-or-return basis. These goods had been marked up at 50% and recorded as credit sales. On 31 December 2020, the customer confirmed to accept 70% of these goods and return the rest in January 2021, but no adjustments had been made in the books for this.
- (iii) 100 samples were received free of charge from a supplier for promoting a new product. The samples had been recorded as a credit purchase and included in the closing inventory at the supplier's list price of \$70 each.
- (iv) With reference to the bank statement of December 2020, it was found that a credit transfer of \$36 500 from a customer to settle his account had not yet been recorded.
- (v) Depreciation on office equipment and motor vans is to be charged as follows:
 - Office equipment: 20% per annum using the reducing-balance method. Scrap value was estimated at \$125 000.
 - Motor vans: 25% per annum using the straight-line method on a monthly basis.

On 1 September 2020, a motor van had been totally scrapped in a car accident. However, no entries were made in the books. This motor van was purchased on 1 July 2017 for \$180 000.

A motor van which was purchased for \$160 000 on 1 April 2016 was still in use at the end of 2020.

- (vi) The debenture interest is payable on 31 March and 30 September every year.
- (vii) On 15 December 2020, application monies of 120 000 shares for the issue of 100 000 ordinary shares at \$1.50 each were received. The shares had been allotted on 31 December 2020 but no entries were made for this. The excess application monies were refunded on 6 January 2021.
- (viii) On 31 December 2020, the board of directors resolved to transfer \$100 000 to the general reserve.

REQUIRED:

- (a) Prepare for Holly Limited:
 - (1) an income statement for the year ended 31 December 2020. (8 marks)
 - (2) a statement to calculate the retained profits as at 31 December 2020. (3 marks)
 - (3) a statement of financial position as at 31 December 2020. (7 marks)
- (b) In January 2021, Holly Limited declared a final ordinary dividend for 2020. Explain whether the company should record the final dividend as a liability of 2020. (2 marks)

(Total: 20 marks)

8. Wong and Wu were in partnership, sharing profits and losses equally. The trial balance of the partnership as at 31 December 2019 is as follows:

	\$	\$
Capital – Wong		800 000
Capital – Wu		300 000
Current – Wong		132 000
Current – Wu	147 000	
Net profit before appropriations		90 000
Office equipment, net	890 000	
Inventory, 31 December 2019	260 000	
Trade receivables	315 000	
Trade payables		225 000
10% loan from Wu (borrowed on 1 July 2019)		40 000
Bank		25 000
	<u>1 612 000</u>	<u>1 612 000</u>

Subsequent to the preparation of the trial balance above, the partners discovered that the following items had not yet been recorded:

- (i) Interest on drawings, 5% per annum:

Wong – withdrew \$150 000 on 1 May 2019

Wu – withdrew \$96 000 on 1 November 2019

- (ii) Interest on partners' capital for 2019, 6% per annum.

- (iii) Interest on the loan borrowed from Wu.

REQUIRED:

- (a) Prepare the current accounts of Wong and Wu in columnar form for the year ended 31 December 2019. (4 marks)

On 1 January 2020, Chau was admitted to the partnership with the following arrangements:

- (iv) The office equipment was to be revalued at \$1 005 000.
- (v) An allowance for doubtful accounts of 2% was to be made.
- (vi) Goodwill was valued at \$160 000 but the goodwill account was not to be maintained in the books. Adjustments for goodwill between partners were to be made in the capital accounts.
- (vii) Chau brought in a piece of office equipment valued at \$150 000, together with additional funds by cheque so that his capital account would have a balance of \$400 000.
- (viii) The profit and loss sharing ratio of Wong, Wu and Chau is 3:3:2. Chau is entitled to an annual salary of \$50 000.
- (ix) Neither interest on drawings nor interest on capital is allowed for the new partnership.

REQUIRED:

- (b) Prepare the capital accounts of Wong, Wu and Chau in columnar form, to record the admission of Chau. (4 marks)
- (c) Give one reason why asset revaluation is necessary upon the admission of a new partner. (2 marks)

During 2020, the partnership did not operate well and made a loss of \$284 000 before appropriations. The following account balances were extracted from the books as at 31 December 2020:

	\$
Office equipment, net	800 000
Inventory	168 000
Trade receivables, net	340 000
Trade payables	250 000
Bank	379 700

On 31 December 2020, the partners decided to dissolve the partnership. The relevant information is as follows:

- (x) The office equipment was sold at 16% below its net book value and a transportation charge of \$32 000 was deducted from the proceeds.
- (xi) Two thirds of the inventory was sold for \$100 000. Chau took over the remaining inventory at \$54 000 and paid the realisation expense of \$3 600 on behalf of the partnership.
- (xii) Total amount received from trade receivables was \$331 600.
- (xiii) Trade payables were fully settled, of which 40% was settled with a 5% discount.

REQUIRED:

Prepare:

- (d) the realisation account. (5 marks)
- (e) the partners' capital accounts in columnar form, showing the necessary adjustments for the dissolution. (5 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., if 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, if 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.	B (17%)	16.	B (70%)
2.	D (30%)	17.	B (55%)
3.	C (56%)	18.	A (55%)
4.	C (40%)	19.	D (42%)
5.	B (44%)	20.	A (65%)
6.	D (33%)	21.	D (78%)
7.	D (63%)	22.	D (80%)
8.	C (78%)	23.	B (67%)
9.	C (55%)	24.	D (78%)
10.	B (46%)	25.	C (55%)
11.	B (74%)	26.	C (60%)
12.	C (69%)	27.	C (48%)
13.	D (36%)	28.	A (28%)
14.	A (52%)	29.	B (67%)
15.	A (22%)	30.	A (56%)

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

SECTION B PART 1

QUESTION 1

Marks

- | | | | |
|-----|------|---|---|
| (a) | - | it is a multinational corporation | 1 |
| | - | it operates in more than one country | 1 |
| (b) | (i) | Private limited company | 1 |
| | (ii) | Disadvantages: | 4 |
| | | - as the shares are freely transferable, existing shareholders may lose control of the company | |
| | | - more rules and requirements, e.g. release of financial information, compliance with the listing rules | |
| | | - higher administrative costs, e.g. auditing, accounting, listing and setup procedures | |
| | | (2 marks for each disadvantage, max. 4 marks) | |

7 marks

QUESTION 2

Marks

- | | | | |
|-----|-----------------------------|--|---|
| (a) | (i) | it reflects the general price level of the shares listed on the Stock Exchange of Hong Kong | 1 |
| | (ii) | Ways: | 1 |
| | | - assess the general performance of the Hong Kong stock market/real estate development sector | |
| | | - compare the performance of the Hong Kong stock market/real estate development sector over time | |
| | | (1 mark for each way, max. 1 mark) | |
| (b) | - | the number of visitors to shopping malls and the occupancy rate of hotels will increase, the profit of the company will increase | 1 |
| | - | investors/shareholders are optimistic about the company's future and will buy its shares | 1 |
| | - | the share price will rise | 1 |
| (c) | Rights of a share investor: | | 2 |
| | - | receive transaction documents, e.g. statements showing the investment transactions | |
| | - | receive a dividend if the board of directors has declared a dividend | |
| | - | vote in annual general meeting | |
| | | (1 mark for each right, max. 2 marks) | |

7 marks

QUESTION 3

Marks

(a)

Rental expenses			
2021		\$	
Apr 5	Bank	37 000	

Sales			
			\$
2021			
Apr 18	Bank		15 000

1

1

(b)

Jeffery	
Statement of financial position as at 30 April 2021 (extract)	
	\$
Current liabilities	
Bank (overdraft)	4 000

1

1

- (c) - business entity concept
- a business is an entity separate from its owner(s), the private transactions of the owner(s) should not be recorded in the books of the business

1

1

6 marks

PART 2

QUESTION 4

Marks

(A)

- (a) (i) working capital ratio

$$= [(\$20\,000 + \$50\,000 + \$180\,000 + \$120\,000) / (\$30\,000 + \$100\,000)] : 1$$

$$= 2.85 : 1$$

1

- (ii) acid test ratio

$$= [(\$20\,000 + \$50\,000 + \$120\,000) / (\$30\,000 + \$100\,000)] : 1$$

$$= 1.46 : 1$$

1

- (b) both the working capital ratio and acid test ratio of Chan Kee were higher than the industry average and the working capital ratio was much higher than its acid test ratio

1

Chan Kee:

- has greater ability to meet short-term obligations/has sufficient short-term assets to repay short-term liabilities
 - has a higher proportion of current assets tied up in inventory
- (1 mark for each comment, max. 2 marks)

2

(B)

- (c) (i) unity of direction

1

- (ii) Advantages:
- creates coherence among employees to achieve the same objectives effectively
 - avoids conflicts and confusion among departments as all departments are working towards the same goal
 - builds up team spirit, which enhances morale
- (2 marks for each advantage, max. 4 marks)

4

10 marks

QUESTION 5

(A)

(a)

Marks

Mr Wong				
Income statement for the month ended 30 April 2021				0.5
	\$	\$		
Sales		103 500		0.5
Less: Returns inwards		1 500		0.5
		102 000		
<u>Less: Cost of goods sold</u>				
Purchases	80 000			0.5
Less: Closing inventory	18 000	62 000		0.5
Gross profit		40 000		0.5
Add: Discounts received		800		0.5
		40 800		
<u>Less: Expenses</u>				
Carriage outwards	1 300			0.5
Sundry expenses	23 475	24 775		0.5
Net profit		16 025		0.5
				(5)

(b)

Use of income statement:

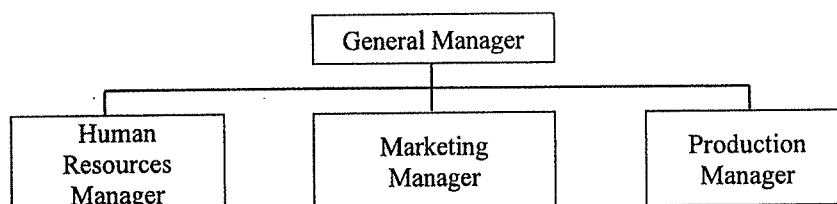
- government assesses the tax liability of the firm based on the profits or losses reported in the income statement

1

(B)

(c)

1



(d)

(i) human resources manager

1

(ii) - line authority: to give orders to and direct the work of subordinates in the human resources department

1

- staff authority: to advise and support the marketing manager and production manager in matters related to human resources

1

10 marks

END OF PAPER 1

Paper 2A
Accounting Module

SECTION A
QUESTION 1

Marks

Rental income						
	2020	Details	\$	2020	Details	\$
1	31 Dec	Profit and loss (F)	(G) 806 000	1 Jan	Balance b/d	(A) 130 000
				2 Apr	Bank (B)	(C) 390 000
				31 Dec	Balance c/d (D)	(E) 286 000
			<u>806 000</u>			<u>806 000</u>

1

1

1

Repair and maintenance expenses						
	2020	Details	\$	2020	Details	\$
	31 Jan	Bank	(I) 15 600	1 Jan	Balance b/d	(H) 10 400
0.5	30 Apr	Bank	(I) 15 600	31 Dec	Profit and loss (M)	(N) 67 600
	31 Jul	Bank	(I) 15 600			
0.5	31 Oct	Bank	(J) 18 720			
1	31 Dec	Balance c/d (K)	(L) 12 480			
			<u>78 000</u>			<u>78 000</u>

1

1

8 marks

QUESTION 2

Marks

(a)			Cash at bank		
	2020 Dec	\$	2020 Dec	\$	
0.5	Sunny Limited	43 520	Balance b/d	5 629	0.5
1	Dividend income	2 472	Electricity expenses	2 830	0.5
			Bank charges	125	0.5
			Fanny Company	7 210	0.5
			Balance c/d	30 198	0.5
		<u>45 992</u>		<u>45 992</u>	(4)

		Bank reconciliation statement as at 31 December 2020		
			\$	
	Adjusted balance as per cash at bank account		30 198	0.5
	Add: Unpresented cheque - 321012		12 400	0.5
			<u>42 598</u>	
	Less: Uncredited deposit - Kitty Limited		3 510	0.5
	Balance as per bank statement		<u>39 088</u>	0.5
				(2)

Alternative answer:

		Bank reconciliation statement as at 31 December 2020		
			\$	
	Balance as per bank statement		39 088	0.5
	Add: Uncredited deposit - Kitty Limited		3 510	0.5
			<u>42 598</u>	
	Less: Unpresented cheque - 321012		12 400	0.5
	Adjusted balance as per cash at bank account		<u>30 198</u>	0.5

(c)	-	realisation principle	1
	-	revenue should be recognised only after the services have been provided, so the receipt from Fanny Company should not be recorded as revenue in 2020	1
			(2)

8 marks

QUESTION 3

Marks

(a) (1)

	Surfboard
	\$
Direct material cost	120
Direct labour cost	70
Fixed manufacturing overhead costs	240
Production cost per unit	430

1

(2)

	Paddle	Kayak	Surfboard
	\$	\$	\$
Selling price	80	500	400
<u>Less: Variable costs</u>			
Direct material cost	25	300	120
Direct labour cost	4	12	70
Selling expenses	1	18	10
Contribution margin per unit	50	170	200

1

Contribution margin per sales mix of paddles and kayaks:
 $(\$50 \times 2) + \$170 = \$270$ per sales mix

1
(3)

(b) Contribution margin required for surfboards = $(\$120\,000 + \$120\,000 + \$960\,000) - (3\,000 \times \$270)$
 = \$390 000

1

Sales quantity of surfboards next year = $\$390\,000 / \200 per unit
 = 1 950 units

1
(2)

(c) Contribution margin required for paddles and kayaks = $(\$1\,200\,000 + \$270\,000) - (4\,920 \times \$200)$
 = \$486 000

2

Quantity of sales mix of paddles and kayaks = $\$486\,000 / \270 per sales mix = 1 800 sales mix

0.5

Sales quantity of paddles = 1 800 sales mix $\times 2$
 = 3 600 units

0.5
(3)

8 marks

QUESTION 4

[illegible]

(b)

Jacky Company			
Income statement for the month ended 31 March 2021			
		\$	\$
Sales	$(220 \times \$55) + (1\,800 \times \$54)$		109 300
Less: Returns inwards	$(300 \times \$54)$		16 200
			<u>93 100</u>
<u>Less: Cost of goods sold</u>			
Opening inventory		16 500	
Add: Purchases	$[\$14\,400 + (\$36 \times 2\,000 \times 95\%)]$	82 800	
Add: Carriage inwards		<u>2 700</u>	
		102 000	
Less: Closing inventory $(\$102\,000 \times 1\,280/3\,000)$ (Working 1)		<u>43 520</u>	58 480
Gross profit			34 620
Add: Discounts received			<u>40</u>
			34 660
<u>Less: Expenses</u>			
Operating expenses $(\$12\,300 + \$1\,000)$		13 300	
Discounts allowed		<u>3 520</u>	16 820
Net profit			<u><u>17 840</u></u>

Working 1:

Closing inventory quantity = $550 + (450 + 2\,000) - (220 + 1\,800 - 300) = 1\,280$ units

$$\begin{aligned}\text{Unit cost (Weighted average cost method)} &= (\$16\,500 + \$14\,400 + \$68\,400 + \$2\,700) / (550 + 450 + 2\,000) \\ &= \$102\,000 / 3\,000 = \$34 \text{ per unit}\end{aligned}$$

Closing inventory = 1 280 units x \$34 per unit = \$43 520

QUESTION 5
Marks

		Trade receivables		
		\$	\$	
0.5	Balance b/d	25 000	Returns inwards	5 600 1
0.5	Sales	320 000	Bank	298 000 0.5
			Trade payables	320 0.5
			Balance c/d	<u>41 080</u>
		<u>345 000</u>		<u>345 000</u>

(3)

		Statement to calculate the total purchases for the year ended 31 March 2021		
		\$		
	Cost of goods sold $(\$320\,000 - \$5\,600)/3$	104 800		1
	Add: Closing inventory $(\$34\,000 + \$15\,000 - \$13\,000 + \$2\,000)$	<u>38 000</u>		1
		142 800		
	Less: Opening Inventory	<u>22 000</u>		0.5
	Purchases for the year 2021	<u>120 800</u>		0.5

(3)

		Trade payables		
		\$	\$	
0.5	Bank	80 000	Balance b/d	16 000 0.5
0.5	Trade receivables	320	Purchases $(\$120\,800 \times 0.75)$	90 600 0.5
	Balance c/d	<u>26 280</u>		
		<u>106 600</u>		<u>106 600</u>

(2)

		Statement to calculate the working capital as at 31 March 2021		
		\$		
<u>Current assets</u>				
	Inventory	38 000		0.5
	Trade receivables	41 080		0.5
	Bank $(\$355\,900 + 298\,000 - \$80\,000 - \$150\,000)$	423 900		0.5
	Cash $[\$49\,600 - (\$120\,800 \times 0.25)]$	19 400		1
	Total current assets	<u>522 380</u>		
<u>Less: Current liabilities</u>				
	Trade payables	26 280		0.5
	Accrued rental expenses	7 500		0.5
	Total current liabilities	<u>33 780</u>		
	Working capital as at 31 March 2021	<u>488 600</u>		0.5

(4)
12 marks

QUESTION 6

Marks

(a)(1)	X $[\\$1\,060\,000 - (\\$4 \times 240\,000)]$ Y $[\\$460\,000 - (\\$3 \times 120\,000)]$ Z $[\\$140\,000 - (\\$2 \times 20\,000)]$ Total indirect labour cost	\$ 100 000 100 000 100 000 300 000	0.5 0.5 0.5 0.5
(a)(2)	Fixed manufacturing overheads to be allocated: X $(\\$456\,000 \times \frac{240\,000}{380\,000})$ Y $(\\$456\,000 \times \frac{120\,000}{380\,000})$ Z $(\\$456\,000 \times \frac{20\,000}{380\,000})$	\$ 288 000 144 000 24 000	0.5 0.5 0.5
(a)(3)	Unit variable manufacturing overheads: X $\frac{(\\$480\,000 - \\$288\,000)}{240\,000 \text{ units}}$ Y $\frac{(\\$390\,000 - \\$144\,000)}{120\,000 \text{ units}}$ Z $\frac{(\\$80\,000 - \\$24\,000)}{20\,000 \text{ units}}$	\$0.8/unit \$2.05/unit \$2.8/unit	0.5 0.5 0.5
			(5)
(b)(1)	Unit contribution margin of Product X if the proposal is accepted: Original unit contribution margin of Product X Reduction in sales revenue per unit Increase in direct labour cost per unit	\$ 2.7 (0.2) (0.04) 2.46	0.5 0.5 0.5 0.5
			(2)
(b)(2)	Statement to calculate the total profits or losses for the coming quarter		
	Total contribution margins of X and Y	\$ $(\\$2.46 \times 250\,000) + (\\$2.45 \times 120\,000)$ = 615 000 + 294 000	\$ 909 000 1.5
	Less: Fixed cost		
	Fixed labour cost (\$300 000 - \$36 000)	264 000	1
	Fixed manufacturing overheads [$\$456\,000 - (\$24\,000 \times 38\%)$]	446 880	1
	Total profits after discontinuation of Z	710 880 198 120	0.5
			(4)
(c)	The proposal should not be accepted as the resulting total profit (\$198 120) would be lower than the total profit earned with the production of Z (\$270 000).		
			(1)
			<u>12 marks</u>

SECTION C

QUESTION 7

Marks

(a)(1)

Holly Limited			
Income statement for the year ended 31 December 2020			
	\$	\$	
Sales (\$4 080 000 - \$45 000 × 30%)		4 066 500	1
<u>Less: Cost of goods sold</u>			
Opening inventory	119 000		0.5
Add: Purchases (\$2 736 000 - \$70 × 100)	2 729 000		1
	2 848 000		
Less: Closing inventory			
{ \$135 000 - [\$32 000 - (\$26 200 - \$2 200)] + (\$45 000 × 30% × ¹⁰⁰ / ₁₅₀) - \$ 7 000 }	129 000	2 719 000	1.5
Gross profit		1 347 500	
<u>Less: Expenses</u>			
Debenture interest (\$300 000 × 8%)	24 000		0.5
Rent and rates	360 000		0.5
Salaries	190 000		
Depreciation - office equipment [(\$1 970 000 - \$962 000) × 20%]	201 600		0.5
Depreciation - motor vans			
[(\$980 000 - \$180 000 - \$160 000) × 25% + (\$180 000 × 25% × ⁸ / ₁₂) + (\$160 000 × 25% × ³ / ₁₂)]	200 000		1.5
Loss on disposal of motor van [\$180 000 - (\$180 000 × 25% × 3 ² / ₁₂)]	37 500	1 013 100	1
Net profit		334 400	(8)

(a)(2)

Statement to calculate the retained profits as at 31 December 2020			
	\$	\$	
Retained profits, 1 January 2020		546 000	0.5
Add: Profit for the year		334 400	0.5
		880 400	
Less: 2019 final dividend	220 000		0.5
2020 interim dividend	150 000		0.5
Transfer to general reserve	100 000	470 000	0.5
Retained profits, 31 December 2020		410 400	0.5
			(3)

QUESTION 7 (con't)

Marks

(a)(3)

Holly Limited
Statement of financial position as at 31 December 2020

Assets	Cost	Accumulated depreciation	Net book value	
	\$	\$	\$	
Non-current assets				
Office equipment (\$962 000 + \$201 600)	1 970 000	1 163 600	806 400	0.5
Motor vans (\$528 000 + \$200 000 - \$142 500)	800 000	585 500	214 500	1
	<u>2 770 000</u>	<u>1 749 100</u>	1 020 900	
Current assets				
Inventory		129 000		0.5
Trade receivables [\$1 577 000 - (\$45 000 × 30%) - \$36 500]		1 527 000		1
Bank (\$424 000 + \$36 500)		<u>460 500</u>	2 116 500	0.5
Total assets			<u>3 137 400</u>	
Equity and liabilities				
Equity				
Ordinary share capital (\$1 400 000 + \$150 000)			1 550 000	0.5
Retained profits			410 400	0.5
General reserves (\$150 000 + \$100 000)			<u>250 000</u>	0.5
			2 210 400	
Current liabilities				
Trade payables (\$598 000 - \$70 × 100)		591 000		0.5
Accrued debenture interest		6 000		0.5
Application monies for ordinary shares		30 000		0.5
8% debentures		<u>300 000</u>	927 000	0.5
Total equity and liabilities			<u>3 137 400</u>	(7)

- (b) No. As the final dividend was declared in 2021, so there is no obligation for the company to pay the dividend at the end of 2020.

2

20 marks

QUESTION 8

Marks

(a)

Current account					
2019	Wong	Wu	2019	Wong	Wu
	\$	\$		\$	\$
Balance b/d		147 000	Balance b/d	132 000	
Appropriation:			Appropriation: interest on capital	48 000	18 000
1 interest on drawings	5 000	800	Appropriation: share of profit (W1)	13 900	13 900
0.5 Balance c/d	188 900		Balance c/d		115 900
	<u>193 900</u>	<u>147 800</u>		<u>193 900</u>	<u>147 800</u>

(4)

Working 1:

Appropriation account for the year ended 31 December 2019			\$	\$
Net profit for the year (\$90 000 - \$2 000)				88 000
Add: Interest on drawings - Wong (\$150 000 x 5% x ⁸ / ₁₂)			5 000	
- Wu (\$96 000 x 5% x ² / ₁₂)			<u>800</u>	<u>5 800</u>
				93 800
Less: Interest on capital - Wong (\$800 000 x 6%)			48 000	
- Wu (\$300 000 x 6%)			<u>18 000</u>	<u>66 000</u>
				<u>27 800</u>
Share of profits:				
Wong				13 900
Wu				<u>13 900</u>
				<u>27 800</u>

(b)

Capital account							
	Wong	Wu	Chau		Wong	Wu	Chau
	\$	\$	\$		\$	\$	\$
0.5 Capital: goodwill	60 000	60 000	40 000	Balance b/d	800 000	300 000	
0.5 Balance c/d	<u>874 350</u>	<u>374 350</u>	<u>400 000</u>	Capital: goodwill	80 000	80 000	
				Revaluation: profit (W2)	<u>54 350</u>	<u>54 350</u>	
				Office equipment			150 000
				Bank (Balancing figure)			<u>290 000</u>
	<u>934 350</u>	<u>434 350</u>	<u>440 000</u>		<u>934 350</u>	<u>434 350</u>	<u>440 000</u>

(4)

Working 2:

Revaluation account			\$	\$
Allowance for doubtful accounts (\$315 000 x 2%)		6 300	Office equipment (\$1 005 000 - \$890 000)	115 000
Capital - Wong: revaluation profit (½)		<u>54 350</u>		
Capital - Wu: revaluation profit (½)		<u>54 350</u>		
		<u>115 000</u>		<u>115 000</u>

QUESTION 8 (con't)

Marks

- (c) Reasons: (2)
- asset revaluation reflects the fair value of assets
 - existing partners are entitled to get a fair share of the net assets of the partnership upon admission of a new partner to ascertain their capital account balances
- (2 marks for each reason, max 2 marks)

(d)

Realisation account					
		\$		\$	
1	Office equipment	800 000	Bank: office equipment	640 000	0.5
	Inventory	168 000	(\$800 000 × 84% - \$32 000)		
	Trade receivables	340 000	Bank: inventory	100 000	0.5
0.5	Capital - Chau: realisation expenses	3 600	Capital - Chau: inventory	54 000	0.5
			Bank: trade receivables	331 600	0.5
			Trade payables: discounts received	5 000	0.5
			(\$250 000 × 40% × 5%)		
			Capital - Wong: loss on realisation (³ / ₈)	67 875	1
			Capital - Wu: loss on realisation (³ / ₈)	67 875	
			Capital - Chau: loss on realisation (² / ₈)	45 250	
		<u>1 311 600</u>		<u>1 311 600</u>	(5)

(e)

Capital account									
				Wong	Wu	Chau			
				\$	\$	\$			
1	Current (W3)		241 150	33 500	Balance b/d	874 350	374 350	400 000	0.5
0.5	Realisation: inventory			54 000	Current (W3)	63 650			0.5
0.5	Realisation: loss	67 875	67 875	45 250	Realisation			3 600	0.5
1.5	Bank	870 125	65 325	270 850					
		938 000	374 350	403 600			938 000	374 350	403 600
(5)									

Working 3:

Current account							
2020	Wong	Wu	Chau	2020	Wong	Wu	Chau
	\$	\$	\$		\$	\$	\$
Balance b/d (from a)		115 900		Balance b/d (from a)	188 900		
Appropriation:				Appropriation:			
share of loss				partner's salary			50 000
(\$284 000 + \$50 000)	125 250	125 250	83 500				
Capital	63 650			Capital		241 150	33 500
	<u>188 900</u>	<u>241 150</u>	<u>83 500</u>		<u>188 900</u>	<u>241 150</u>	<u>83 500</u>

20 marks

End of Paper 2A