

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.

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 Hong Kong business environment is/are correct?
- (1) Hong Kong is a member of the Asia-Pacific Economic Cooperation and the World Trade Organization.
 - (2) The secondary industry contributes to a major part of the Gross Domestic Product of Hong Kong.
 - (3) Businesses which make profits in Hong Kong are subject to salary tax.
- A. (1) only
B. (2) only
C. (3) only
D. (1) and (2) only
2. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong is/are correct?
- (1) Most of them are engaging in the import/export trade and wholesale industries.
 - (2) An enterprise with total asset value under \$1 million is an SME.
 - (3) SMEs employ about 90% of the working population.
- A. (1) only
B. (2) only
C. (1) and (3) only
D. (2) and (3) only
3. An accounts clerk at a firm is preparing the trial balance and the financial statements, he will then submit relevant information to the manager.
- Which accounting function(s) is/are performed in the situation above?
- (1) communicating
 - (2) recording
 - (3) summarising
- A. (1) only
B. (2) only
C. (1) and (3) only
D. (2) and (3) only
4. Assume that the closing inventory of a firm decreases and its carriage outwards increases. How will this affect the gross profit and net profit of the firm?
- | | <u>Gross profit</u> | <u>Net profit</u> |
|----|---------------------|-------------------|
| A. | increases | increases |
| B. | increases | unchanged |
| C. | decreases | decreases |
| D. | decreases | unchanged |
5. David deposited \$300 000 into a bank account on 1 April 2021. The deposit interest rate was 4% per annum, compounded quarterly. The total interest that David could get on 31 December 2021 was:
- A. \$8 000
B. \$8 080
C. \$9 000
D. \$9 090

6. Which of the following statements about a joint venture is/are correct?
- (1) A joint venture is required to disclose its financial statements to the public.
 - (2) A joint venture is an entity separate from the joint venture partners.
 - (3) The joint venture partner who invested the most capital has the right to make the final decisions of the business operations.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only
7. Which of the following are advantages of adopting 'management by objectives'?
- (1) It reduces the workload of subordinates.
 - (2) It facilitates the monitoring of the progress of subordinates' work.
 - (3) It motivates subordinates to achieve the company's goals.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
8. Which of the following is/are function(s) of a trial balance?
- (1) errors in the ledger accounts can be detected
 - (2) facilitate the preparation of the books of original entries
 - (3) the arithmetical accuracy of the financial statements can be checked
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
9. Which of the following statements about the Hang Seng Index is/are correct?
- (1) It is computed by taking into account all stocks listed on the Stock Exchange of Hong Kong.
 - (2) It serves as a benchmark to assess the price trend of a listed stock to facilitate investment decisions.
 - (3) It reflects the general price level of the stocks listed on the Main Board of the Stock Exchange of Hong Kong.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
10. Which of the following double entries are correct?
- | | <u>Transaction</u> | <u>Account to be debited</u> | <u>Account to be credited</u> |
|-----|---|------------------------------|-------------------------------|
| (1) | Received cash refund for goods returned to a supplier | Cash | Returns outwards |
| (2) | Paid freight charges for delivering goods to a customer by cheque | Carriage outwards | Bank |
| (3) | Office equipment bought on credit was returned to the seller | Accounts payables | Office equipment |
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

11. A foreign firm has established retail shops in Hong Kong. Which of the following is/are economic factor(s) that might affect this firm?
- (1) customers' preference for international brands
 - (2) foreign exchange rate
 - (3) employment level of Hong Kong
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only

12. On 1 January 2022, the total asset value of Wong's firm was \$100 000. On 3 January, the firm purchased goods on credit at a cost of \$30 000. On 31 January, goods costing \$8 000 were sold on credit at a price of \$12 000.

Based on the above information, calculate the total asset value of Wong's firm as at 31 January 2022.

- A. \$122 000
 - B. \$126 000
 - C. \$134 000
 - D. \$142 000
13. Ignoring other factors, which of the following government policies will lead to an increase in the share price of a fast food chain?
- (1) disbursement of electronic consumption vouchers to citizens
 - (2) raise the stamp duty rate on stock transactions
 - (3) release of social distancing measures imposed during the COVID-19 pandemic
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)
14. Chan's firm sells goods at a list price of \$80 each. On 10 March 2022, it sold 1 200 units of goods to a customer. The following account was extracted from the books of Chan's firm:

Sales		
	2022	\$
	Mar 10	Trade receivables
		84 000

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

- (1) The goods were sold on credit.
 - (2) A discount of \$10 per unit was given to the customer.
 - (3) The discount given to the customer was recorded in the discounts allowed account.
- 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 statements about line authority and staff authority is/are correct?
- (1) The operations manager has line authority over sales assistants.
 - (2) The information manager has staff authority to support the marketing manager.
 - (3) The human resources manager has line authority over all staff.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

16. Which of the following should be shown on the credit side of the capital account?
- (1) losses made by the firm
 - (2) office expenses paid by the owner out of his own pocket
 - (3) a loan borrowed by the firm from the owner's friend
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
17. Macy has a poor personal credit rating. Which of the following would be caused by her poor personal credit rating?
- (1) bankruptcy will be filed by the creditors
 - (2) higher loan interest is likely to be paid
 - (3) her application for a credit card may not be approved
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
18. Susan is the General Manager of a trading company. There are two Assistant General Managers supervising three and four department managers respectively. Each department manager supervises more than ten front-line staff.
- Based on the above information, which of the following statements about the company is correct?
- A. The span of control of Susan is nine.
 - B. It is a small and medium enterprise.
 - C. It is a flat organisation as compared with a company of three layers.
 - D. Its decision-making process is relatively slower than that of a company of similar size with three layers.

Based on the following information, answer Questions 19 and 20:

Some of the account balances for Yip's firm as at 31 December 2021 are as follows:

	\$
Capital, 1 January 2021	420 000
Bank overdraft	18 000
Inventory	71 000
Trade payables	86 000
Trade receivables	162 000
Net profit for 2021	155 000
Drawings	11 000

19. The quick ratio as at 31 December 2021 is:
- A. 1.56:1
 - B. 2.09:1
 - C. 2.24:1
 - D. 2.71:1
20. The return on capital employed for 2021 is:
- A. 26.96%
 - B. 31.16%
 - C. 31.50%
 - D. 36.90%

21. Which of the following companies is/are multinational corporation(s)?
- (1) A Hong Kong company which purchases raw materials from Thailand.
 - (2) A Mainland company which issued bonds in Hong Kong to raise funds.
 - (3) A Hong Kong company which established a branch in Singapore.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only
22. A large company has different functional departments. Which of the following tasks are performed by the finance department of the company?
- (1) monitoring the cash flows of the company
 - (2) reviewing the budgets for upgrading the information management system
 - (3) determining the salary level of accounts clerks
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
23. Ken is a senior designer at a firm which designs games and applications for mobile phones. Most of the staff of the firm are creative, experienced and self-disciplined. Ken provides guidance to the designers and reviews their programme design drafts. He then discusses the review results with the designers and invites them to participate in the selection of the programme designs.
- Based on the above information, Ken is adopting:
- A. unity of command
 - B. unity of direction
 - C. laissez-faire leadership
 - D. democratic leadership
24. Which of the following is/are right(s) of a share investor?
- (1) to receive investment transaction statements
 - (2) to receive stable dividend income
 - (3) to be involved in the daily operations of the company
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
25. Which of the following statements about a franchise business is/are correct?
- (1) A franchisee is not required to pay royalties to the franchisor when his franchise business incurs a loss.
 - (2) The franchisor and all its franchisees operate the business in the same country.
 - (3) With the franchisor's approval, a franchisee could have a mode of operations different from other franchisees.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (2) and (3) only

26. Both (1) and (2) may have capital gain or loss, whereas the latter offers interest as a return to investors.
- | | <u>(1)</u> | <u>(2)</u> |
|----|------------|---------------|
| A. | stocks | term deposits |
| B. | stocks | bonds |
| C. | bonds | term deposits |
| D. | bonds | stocks |
27. Which of the following statements about the Mandatory Provident Fund (MPF) System is correct?
- Employees, self-employed persons and employers may choose to make voluntary contributions on top of their mandatory contributions.
 - Employees can withdraw their MPF immediately if they retire before the age of 60.
 - Part-time staff are exempted from joining the MPF Scheme.
 - An employee with a monthly income of \$40 000 is required to contribute \$2 000 each month.
28. Which of the following descriptions about the 'Closer Economic Partnership Arrangement' (CEPA) is correct?
- All professional qualifications are mutually recognised between Hong Kong and the Mainland.
 - All Mainland businesses can apply to list their stocks on the Main Board of the Stock Exchange of Hong Kong.
 - Hong Kong businesses can apply for interest-free loans from the Mainland government if they relocate the headquarters to the Mainland.
 - All goods of Hong Kong origin can enjoy zero tariff preference upon importation into the Mainland.

Based on the following information, answer Questions 29 and 30.

The bookkeeper prepared a trial balance as below, but some account balances were put on the wrong side:

Trial balance as at 31 December 2021		
	Dr	Cr
	\$	\$
Sales	102 000	
Purchases	56 500	
Inventory, 1 January 2021	21 100	
Motor vans		86 000
Discounts received	2 500	
Operating expenses		7 800
Bank	3 500	
Bank loan	40 000	
Capital, 1 January 2021		(Y)
	<u>?</u>	<u>?</u>

Inventory as at 31 December 2021 was \$14 000.

29. What is the net profit for the year ended 31 December 2021?
- \$28 100
 - \$33 100
 - \$19 100
 - \$30 600
30. After correctly arranging the account balances in the trial balance, the figure for (Y) is:
- \$14 800
 - \$30 400
 - \$35 400
 - \$121 400

END OF SECTION A

SECTION B (30 marks)

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

1. Tim is a sole trader operating a shop selling organic skincare products. Candy invited him to be a partner of her business, which sells olive oil skincare products imported from Italy.

Candy provided the following financial information for the year 2021 for Tim's consideration:

	<u>Candy's firm</u>	<u>Industry average</u>
Annual sales	\$800 000	/
Gross profit ratio	27.2%	28.5%
Net profit ratio	17.9%	10.5%
Return on capital employed	12.5%	5.1%

- (a) Explain to Tim two advantages of forming a partnership with Candy, rather than operating his business on his own. (2 marks)
- (b) Comment on the profitability of Candy's firm based on the financial information above. (4 marks)
2. Chris and his wife, Helen, are planning to renovate their flat to provide a room for their new-born baby. Chris is thinking to take out a personal loan for that purpose. Helen reminds him that his personal credit record is unfavourable and therefore he has a lower credit rating.
- (a) State two financial needs that Chris has in his present life stage based on the information above. (2 marks)
- (b) Suggest two ways to Chris to improve his personal credit rating. (2 marks)

After careful consideration, Chris has borrowed a personal loan of \$200 000.

Chris will receive a bonus of \$100 000 from his employer later. He wants to invest the money in the stocks listed on the GEM. Helen suggests investing in iBond instead.

- (c) Give two reasons to justify Helen's suggestion of investing in iBond instead of the stocks listed on the GEM. (2 marks)
- (d) Assume that Chris decides to repay part of the personal loan rather than investing with the bonus. Give one reason to support his decision. (2 marks)

3. Below is a dialogue which appeared in a meeting between three department managers of a business selling luxury jewellery:

Marketing Manager: Our department goal next year is to expand the customer base of the young lady sector significantly. In line with this, we are going to invite a hit boy band to serve as our brand ambassador.

Risk Manager: Can young ladies afford our luxury products? Will the boy band appeal to our mature and loyal customers?

Information Manager: Don't worry! We can conduct marketing research. My department will give full support for this!

- (a) Explain one characteristic of an effective goal that the Marketing Manager may have overlooked in setting the above goal. (2 marks)
- (b) How could the Risk Management Department and the Information Management Department help the Marketing Department to achieve its department goal? Explain one way for each department how they could help. (4 marks)

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

4. Ben runs a small food and grocery shop in Mongkok. The following are some account balances extracted from the books of his firm as at 31 December 2021:

	\$
Sales	440 000
Office furniture	195 100
Bank loan (maturing on 31 August 2023)	80 000
Purchases	180 000
Bank	54 400
Capital, 1 January 2021	265 000
Rental deposit	30 000
Trade receivables	13 500
Trade payables	11 600
Equipment	35 500

The inventory as at 31 December 2021 was valued at \$27 000.

The rental deposit for the shop was paid on 1 January 2021. It will be refunded upon the end of the tenancy agreement on 30 June 2022, if the terms of the rental contract are not violated. During the year 2021, Ben withdrew \$5 000 from the bank account each month for his personal use.

- (a) Prepare a statement of financial position as at 31 December 2021. (6 marks)

To fulfill social responsibilities, the firm sells food and necessities at prices below cost to the elderly living alone in the neighbourhood.

- (b) Explain why the above action is fulfilling social responsibilities. (2 marks)
- (c) State two reasons why Ben's firm is willing to fulfill its social responsibilities. (2 marks)

(Total: 10 marks)

5. On 1 January 2022, Cherry commenced a business selling health supplements. She also works as the General Manager of the business. There are three departments in the business: the Sales and Marketing Department; the Purchasing and Storing Department; and the Administration and Finance Department. Two branches are under the charge of the Sales and Marketing Department: wholesale and retail.
- (a) Draw an organisation chart to show the organisation structure of Cherry's business. (2 marks)
- (b) Entrepreneurs, like Cherry, are important to the business development of Hong Kong. Give two reasons why they are important. (2 marks)

The following information for the quarter ended 31 March 2022 is extracted from the books of Cherry's business:

Movement of inventory:	<u>kg</u>	<u>List price per kg</u> \$	<u>Trade discount</u>
Purchases	4 000	66.5	
Damaged goods returned to suppliers	200	66.5	
Sales (wholesale)	2 000	180	25%
Sales (retail)	1 100	180	/
Other information:		\$	
Wages and salaries		125 800	
Printing and packaging expenses		10 150	
Discounts given by suppliers for early settlement		9 825	

- (c) Prepare an income statement for the quarter ended 31 March 2022. (6 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.

SECTION A (24 marks, weighting 30%)

Answer **ALL** questions in this section.

1.

- (A) Beta Company is a garment trading company. It keeps the following books of original entry: Sales Journal, Purchases Journal, Returns Inwards Journal, Returns Outwards Journal, Cash Book and General Journal.

REQUIRED:

- (a) State the book of original entry that Beta Company should use to record each of the following transactions:

- (i) Sold garments for \$3 000 on credit.
- (ii) Purchased a pair of scissors, which could be used for several years, for \$20 on credit.
- (iii) Took out a long-term bank loan of \$600 000.
- (iv) Received garments of \$5 000 returned from a credit customer who complained that the quality of the garments was below standard.

(2 marks)

- (b) With reference to the most relevant accounting principle or concept, explain why Beta Company does not provide depreciation for the pair of scissors mentioned in (a)(ii) above. (3 marks)

- (B) Beta Company purchased a motor van on 1 May 2019 for \$180 000. The residual value of the motor van was estimated at \$12 000. Depreciation of 20% per annum had been provided on the motor van using the reducing-balance method. On 1 August 2021, the company sold the motor van for \$85 000.

REQUIRED:

Prepare the accumulated depreciation account for the motor van for the years ended 31 December 2020 and 31 December 2021. (3 marks)

(Total: 8 marks)

2. Jacky commenced a trading business on 1 January 2020. On that day, office equipment was acquired for \$980 000. The office equipment is to be depreciated using the straight-line method at a rate of 10% per annum.

All sales and purchases are made on a credit basis. On 1 January 2021, the amount due from customers was \$45 000. The statement of financial position as at 31 December 2021 includes the following items only and the balances of some accounts were confirmed as below:

	\$
Office equipment	980 000
Accumulated depreciation – office equipment	?
Trade receivables	?
Inventory	159 750
Bank	22 000 (Cr)
Trade payables	?
Capital, 1 January 2021	500 000
Net profit	?
Long-term bank loan	?

Additional information for 2021:

Working capital, 31 December 2021	\$66 000
Net sales for the year	\$600 000
Net profit ratio	30%
Trade receivables turnover	12 times
Gearing ratio	20%

REQUIRED:

Prepare a statement of financial position as at 31 December 2021.

(8 marks)

(Total: 8 marks)

3. HTV produces televisions. Its various kinds of costs are shown in the table below:

Cost item		fixed cost or variable cost	direct cost or indirect cost
When the cost object is television:			
<i>Example</i>	<i>Cost of speakers for televisions</i>	<i>variable</i>	<i>direct</i>
(i)	Annual insurance premium for the factory building	(1)	(2)
(ii)	Testing costs for each television	(3)	(4)
When the cost object is the production department:			
(iii)	Wages of workers calculated based on units produced	(5)	(6)
(iv)	Salary of production line supervisors	(7)	(8)

REQUIRED:

- (a) With reference to the example above, classify each cost item into fixed cost or variable cost, and direct cost or indirect cost. Write your answer for items (1) to (8) in the answer book. (4 marks)
- (b) Under absorption costing, which two cost items in (i) to (iv) above should be classified as production overheads? (1 mark)

The following cost information for 2022 is extracted from HTV's records:

	<u>January</u>	<u>February</u>	<u>March</u>	<u>April</u>
Activity level (units)	1 500	3 000	5 500	6 000
<u>Cost item</u>				
Repair and maintenance expenses	\$5 200	\$9 400	\$20 000	\$19 600

REQUIRED:

- (c) Assume that the activity level in May 2022 is 6 500 units and the fixed cost will increase by 10%. Use the high-low method to calculate the repair and maintenance expenses for May. (3 marks)

(Total: 8 marks)

SECTION B (24 marks, weighting 45%)

Answer **TWO** questions in this section.

4. On 31 March 2022, the bank column of Kenny Company's cash book showed a credit balance of \$3 710. A bank statement for the month ended 31 March 2022 was received, but the balance shown was different from the balance in the cash book.

The following information is available on 31 March 2022:

- (i) The following cheques received from customers were recorded in the cash at bank account:

<u>Date of deposit</u>	<u>Date credited by the bank</u>	\$
30 March 2022	31 March 2022	1 480
31 March 2022	1 April 2022	3 500
1 April 2022	2 April 2022	730

- (ii) The following cheques issued to suppliers were recorded in the cash at bank account, but they have not been presented yet:

<u>Cheque number</u>	<u>Date of cheque</u>	<u>Payee</u>	\$
161246	28 September 2021	Nice Ltd	900
161677	22 February 2022	Amber Ltd	1 350
161989	2 April 2022	Ethan Ltd	830

It is the bank's practice not to honour cheques that have been outstanding for more than six months.

- (iii) The company records the autopay for the monthly management fee of \$8 650 in the books on the 4th day of each month. However, the autopay for March 2022 was not executed due to insufficient funds in the bank account.
- (iv) The company notified the bank about the cancellation of a standing order of internet fee for \$480 starting from March 2022. However, the bank overlooked the cancellation instruction.
- (v) Due to renovation, Kenny Company sold the desks used in the office for \$2 400. The cheque received had been deposited into the bank. On 30 March 2022, the cheque was returned by the bank because of an invalid signature, but this has not been recorded in the books yet.
- (vi) The company made a six-month term deposit for \$200 000 and recorded it in the term deposit account. The interest rate was 3.8% per annum. Upon the maturity of the term deposit on 31 March 2022, the bank transferred the principal and interest to the current account. The company renewed \$80 000 to another term deposit instantly. No entries were made in the books on 31 March 2022.

REQUIRED:

- (a) Update the cash at bank account of Kenny Company. (6 marks)
- (b) Prepare a bank reconciliation statement as at 31 March 2022, commencing with the updated balance of the cash at bank account. (3 marks)
- (c) Give one reason for preparing a bank reconciliation statement. (1 mark)
- (d) State two differences between 'standing orders' and 'direct debits'. (2 marks)

(Total: 12 marks)

5. On 1 April 2021, Amy, Ben and Bill formed a partnership to operate a retail shop. Its financial year ends on 31 December.

The partnership agreement includes the following terms:

- Amy, Ben and Bill will share profits and losses in the ratio of 2:3:5. Regardless of the performance of the partnership, Bill is guaranteed a minimum share of profit of \$70 000 for the first nine months of operations.
- Neither interest on capital nor interest on drawings is calculated.
- The initial total capital of the partnership is \$600 000, to be contributed by the partners equally by bringing in either cash or non-current assets to the business.
- Amy is entitled to a monthly salary of \$30 000, payable on the last day of each month.

To start the business, Amy brought in new office furniture for \$120 000 and Ben brought in a computer which was acquired for \$15 000 two years ago. The fair value of the computer on 1 April 2021 was \$9 000.

After operating for nine months, the information about the partnership for the period ended 31 December 2021 is as follows:

- (i) All transactions were made in cash.
- (ii) Goods were normally sold at a gross profit margin of 60%. During the nine months, total sales amounted to \$960 000, of which \$4 800 were made to a charitable organisation at cost.
- (iii) Total purchases from suppliers amounted to \$490 830.
- (iv) A credit note \$2 400 was issued for goods returned. The refund was to be made in cash in January 2022.
- (v) Ben withdrew goods costing \$20 000 on 1 October 2021 for his personal use.
- (vi) Insurance premium of \$28 000 for one year till 30 June 2022 was paid.
- (vii) Operating expenses paid, except the insurance premium, were \$16 500 per month.
- (viii) No depreciation would be charged for non-current assets in the first year of operations.
- (ix) On 31 December 2021, some cash was found stolen after all the receipts and payments had been made. Only \$477 400 cash was left in the safe.

REQUIRED:

Prepare for the partnership:

- (a) an income statement for the nine months ended 31 December 2021. (10 marks)
- (b) the partners' current account in columnar form. (2 marks)

(Total: 12 marks)

6. Ali Company produces a single product, Product Y. It does not keep inventory of finished goods. The production overheads and selling costs are mixed costs. Annual total fixed cost amounted to \$2 800 000. The ratio of fixed production cost to fixed non-production cost is 7:3.

The income statement for the year ended 31 March 2022 is drafted as below:

	\$
Sales	6 000 000
<u>Less: Costs</u>	
Direct material costs	1 700 000
Direct labour costs	300 000
Production overheads	2 500 000
Selling costs	<u>1 000 000</u>
	<u>5 500 000</u>
Net profit	<u><u>500 000</u></u>

Peter, the Sales Manager, estimated that sales will decline by 25% next year. As such, he predicted that the net profit will decrease by 25% from \$500 000 to \$375 000 next year.

REQUIRED:

- (a) Based on Peter's estimation on the sales next year, prepare an income statement for the next year using the marginal costing system. (5 marks)
- (b) Explain why the prediction made by Peter regarding the net profit next year is wrong. (1 mark)

The Production Manager added that some production facilities would be left idle as sales decline. The following options are then proposed:

- Option (i): Sublet the idle facilities to earn an annual rental income of \$90 000. A part-time supervisor with annual salary of \$72 000 will be laid off.
- Option (ii): Use the idle facilities to produce 1 500 units of Product K per year. The selling price and variable cost per unit of Product K will be \$800 and \$300 respectively. A machine modification charge of \$70 000 is required to produce Product K. It is expected that some existing customers of Product Y will switch to buy Product K, leading to a loss in annual contribution margin of \$150 480 for Product Y.

REQUIRED:

- (c) For Option (i) and Option (ii), prepare separate statements to calculate their incremental profits. Briefly explain which option should Ali Company take. (6 marks)

(Total: 12 marks)

SECTION C (20 marks, weighting 25%)

Answer **ONE** question in this section.

7. Kin Limited is a trading company. It is the company's policy to provide depreciation on office equipment using the straight-line method at an annual rate of 20% on a monthly basis.

Before preparing the closing entries, the bookkeeper drafted the trial balance as at 31 March 2022. The trial balance did not agree and the difference was transferred to a suspense account.

Subsequently, the bookkeeper discovered the following errors:

- (i) Goods returned to a supplier for \$15 000 were debited to trade payables account and returns inwards account only.
- (ii) A debit balance of \$3 800 in the prepaid management fee account as at 31 March 2022 was not included in the trial balance.
- (iii) Credit sales with a gross amount of \$90 000 was made in March 2022. An 8% trade discount was given to the customer. The following double entries were made to record this transaction:

	Debit	Credit
	\$	\$
Sales	82 800	
Discounts allowed	7 200	
Trade receivables		90 000

- (iv) Office equipment was acquired for \$423 000 on 1 November 2021. After providing depreciation, it was discovered that an installation cost of \$39 000 paid on the day of acquisition had been charged as an office expense.
- (v) On 31 March 2022, office equipment bought on 1 December 2020 at \$45 000 was traded in for a new model. The list price of the new model was \$300 000 and the vendor offered a 10% discount to Kin Limited. The trade-in value of the existing office equipment was \$25 000, the remaining amount would be paid in April 2022. No entries were made for the above trade-in arrangement.
- (vi) On 15 March 2022, the company issued ordinary shares of \$600 000. The receipt of subscription monies of \$750 000 was recorded in the bank account and the share issue account. Shares were allotted and refunds were made to unsuccessful applicants on 31 March 2022. However, no entries regarding the allotment of shares and the refund were made in the books.
- (vii) On 1 May 2021, the company paid the final dividend of \$180 000 which had been declared on 31 March 2021. No entries were made for this payment.

REQUIRED:

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (15 marks)
- (b) Identify the type of accounting error made in items (iv) and (vii) above respectively. (2 marks)

The company is considering opening a showroom in 2023. A director proposed to make a 'provision' in the books for the cost of setting up the showroom.

REQUIRED:

- (c) Define 'provision', and explain whether the company should make a 'provision' for the above cost.
(3 marks)

(Total: 20 marks)

8. Wing is a sole owner of a pillow retail shop. The business financial year ends on 31 March. The business had not kept proper accounting records since the resignation of the shop manager on 1 January 2022. Wing sorted out the documents and the following information for the quarter ended 31 March 2022 was confirmed:

- (i) All purchases were made on credit and settled by cheque. Sales were made on both cash and credit basis. All goods were sold at a mark-up of 50%.
- (ii) On 31 March 2022, a physical inventory count in the warehouse showed that the inventory was valued at \$81 000. Subsequent investigation showed the following issues:
 - (1) Pillows invoiced at \$32 400, after deducting a trade discount of 10% off the normal selling price, were sent to a customer on a sale-or-return basis and recorded as credit sales on 22 March 2022. On 30 March 2022, the customer confirmed to return all goods in April 2022.
 - (2) Some pillows costing \$15 000 were kept in the retail shop on 31 March 2022.
 - (3) It was discovered that some pillows costing \$13 000 were defective. They could be sold for \$9 800 only after replacing the pillow covers at \$1 400 and paying additional selling expenses of \$600.
- (iii) Trade receivables balances as at 1 January 2022 and 31 March 2022 were \$162 000 and \$110 400 respectively.
- (iv) The following information was summarised from the bank statements for the quarter ended 31 March 2022:

		\$
Receipts:	Cash sales	9 000
	Cheques from customers	292 000
Payments:	Cheques to suppliers	74 350

- (v) Cash sales were banked after paying miscellaneous expenses of \$1 100 per month.
- (vi) The outstanding amounts as at 1 January 2022 and 31 March 2022 confirmed by suppliers were \$58 000 and \$42 000 respectively. In January 2022, the company received 9% discounts on purchases of \$30 000 for early settlement.
- (vii) On 31 March 2022, the supplier agreed to give a purchase allowance of \$1 750 to Wing as compensation for the late delivery in February.
- (viii) On 1 January 2022, the balance of the allowance for doubtful accounts was \$3 100. On 31 March 2022, the following ageing schedule of the trade receivables is available:

<u>Age of trade receivables</u>	<u>Amount of trade receivables</u>	<u>Estimated doubtful debts</u>
less than 31 days	\$70 400	2%
31 days and over	<u>\$40 000</u>	10%
	\$110 400	

After the preparation of the ageing schedule, a customer who made a purchase for \$3 900 on 1 January 2022 was declared bankrupt. Wing decided to write this debt off on 31 March 2022.

REQUIRED:

- (a) Prepare statements to calculate:
- (1) the adjusted inventory value as at 31 March 2022. (4 marks)
 - (2) the total sales for the quarter ended 31 March 2022. (4 marks)
- (b) Prepare the following accounts for the quarter ended 31 March 2022:
- (1) trade payables (4 marks)
 - (2) allowance for doubtful accounts (4 marks)
 - (3) bad debts (1 mark)

Due to an economic downturn, Wing is considering increasing the allowance for doubtful accounts as at 31 March 2022.

- (c) With reference to the most relevant accounting principle or concept, explain whether she should do so. (3 marks)

(Total: 20 marks)

END OF PAPER

Marking Schemes

This document was prepared for markers' reference. It should not be regarded as a set of model answers. Candidates and teachers who were not involved in the marking process are advised to interpret its content with care.

General Notes on Marking

1. Teachers are strongly advised to conduct their own internal standardisation procedures using the marking scheme before the actual marking begins. After standardisation, teachers should adhere to the marking scheme to ensure a uniform standard of marking within the school.
2. The marking scheme may not exhaust all possible answers for each question. Teachers should exercise their professional discretion and judgment in accepting alternative answers that are not in the marking scheme but are correct and well reasoned.
3. In questions asking for a specified number of reasons or examples etc., 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.	A (76%)	16.	B (58%)
2.	A (35%)	17.	C (71%)
3.	C (43%)	18.	D (69%)
4.	C (67%)	19.	A (65%)
5.	D (67%)	20.	C (45%)
6.	B (70%)	21.	C (77%)
7.	C (80%)	22.	A (71%)
8.	A (43%)	23.	D (62%)
9.	D (50%)	24.	A (67%)
10.	D (50%)	25.	C (76%)
11.	D (46%)	26.	B (54%)
12.	C (45%)	27.	A (61%)
13.	C (63%)	28.	D (64%)
14.	A (55%)	29.	B (62%)
15.	B (59%)	30.	B (62%)

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

SECTION B Part 1

QUESTION 1

Marks

- (a) Advantages: 2
- more expertise: Tim and Candy will both contribute their specialised knowledge of skincare products to the business
 - wider sources of capital: Tim and Candy will both contribute capital to the business
 - sharing of risk: business risks and losses will be shared by Tim and Candy
 - wider business network/market: Tim and Candy will combine their customers and suppliers, leading to a larger network/market
- (1 mark for each advantage, max 2 marks)
- (b) Comments on Candy's firm: 4
- the profitability was higher than other firms in the industry
 - the gross profit ratio was lower than the industry average, indicating that its products were sold at a lower selling price, or its cost of goods sold was higher than other firms in the industry
 - the gross profit ratio was lower than the industry average and the net profit ratio was higher than the industry average, indicating that it had better control of expenses
 - the return on capital employed was higher than the industry average, indicating that it was more efficient in using its owners' capital to generate profits
- (1-2 marks for each comment, max. 4 marks)

6 marks

QUESTION 2

Marks

- (a) Financial needs: 2
- to set up an educational fund for their child
 - to pay the renovation costs
 - to take out medical insurance
- (1 mark for each financial need, max. 2 marks)
- (b) Ways: 2
- repay debts and pay bills on time
 - avoid applying for too much credit at one time
 - lower outstanding loan amount
- (1 mark for each way, max. 2 marks)
- (c) Reasons: 2
- the default risk of the iBond is lower as it is issued by the HKSAR Government
 - the iBond has guaranteed interest returns
- (1 mark for each reason, max. 2 marks)
- (d) Reasons: 2
- saving in loan interest expenses will be higher than the investment income to be earned
 - the financial burden of repaying the principal and loan interest will be lower
 - reduce Chris' outstanding loan amount, which helps improve his personal credit rating
- (2 marks for each reason, max. 2 marks)

8 marks

QUESTION 3

Marks

- (a) Characteristics: 2
- specific: the goal is not clear and precise, e.g. the 'young lady' sector is not clearly defined
 - measurable: the goal cannot be measured, e.g. difficult to measure the expansion of customer base, the criterion of 'significantly' cannot be measured
 - attainable/realistic: the goal may not be achievable, e.g. difficult to expand the young lady sector because the purchasing power of young ladies is relatively weak
 - time-bound: there is no target date for achieving the goal
- (2 marks for each characteristic, max 2 marks)

- (b) Risk Management Department: 2
- identifies and assesses the risks of expanding the young lady sector, and formulates appropriate risk management strategies

- Information Management Department: 2
- collects/processes market data about the young lady sector and presents it in a systematic and understandable manner
 - organises and maintains a database for storing market data and information about the young lady sector for future use

(2 marks for each department, max. 4 marks)

6 marks

Part 2

QUESTION 4

Marks

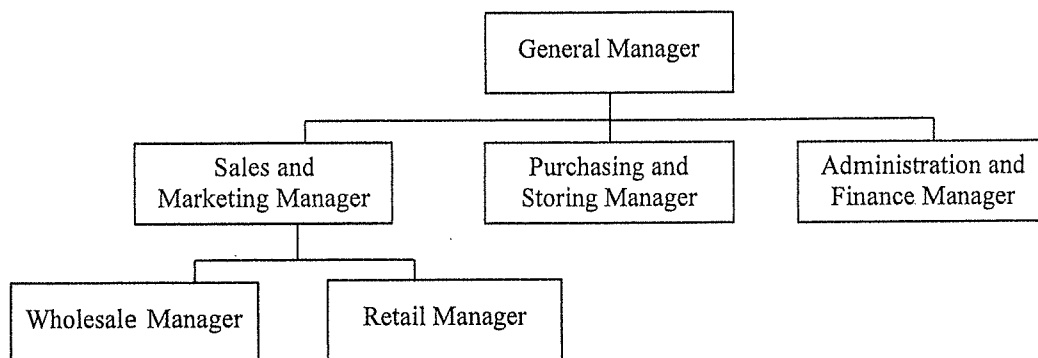
Ben's firm			
Statement of financial position as at 31 December 2021			
<u>Non-current assets</u>	\$	\$	
Office furniture		195 100	0.5
Equipment		<u>35 500</u>	0.5
		230 600	
<u>Current assets</u>			
Inventory	27 000		0.5
Rental deposit	30 000		0.5
Trade receivables	13 500		0.5
Bank	<u>54 400</u>		0.5
	124 900		
<u>Less: Current liabilities</u>			
Trade payables	<u>11 600</u>		0.5
Net current assets		<u>113 300</u>	
		<u>343 900</u>	
<u>Financed by</u>			
Capital, 1 January 2021		265 000	0.5
Add: Net profit (Balancing figure)		<u>58 900</u>	0.5
		323 900	
Less: Drawings (\$5 000 x 12)		<u>60 000</u>	0.5
		263 900	
<u>Non-current liabilities</u>			
Bank loan		<u>80 000</u>	0.5
		<u>343 900</u>	
		Presentation	0.5
			(6)
(b) Reason:			2
- the action benefits society: the firm considers the needs of the community and the stakeholders, i.e. the elderly living alone in the neighbourhood			
(2 marks for each reason, max. 2 marks)			
(c) Reasons:			2
- to build a good reputation and image / gain support from the community			
- to enhance customer relationships / attract customers			
(1 mark for each reason, max. 2 marks)			
		<u>10 marks</u>	

QUESTION 5

Marks

(a)

2



(b)

Reasons:

2

- encourage innovation: provide new products and services to satisfy customers' needs
 - promote market competition: consumers can have more choice of goods at lower prices
 - provide job opportunities and facilitate economic growth
- (1 mark for each reason, max. 2 marks)

(c)

Cherry's business
Income statement for the quarter ended 31 March 2022

	\$	\$	
Sales $(2\,000 \times \$180 \times 0.75) + (1\,100 \times \$180)$		468 000	1
<u>Less: Cost of goods sold</u>			
Purchases $(4\,000 \times \$66.5)$	266 000		0.5
Less: Returns outwards $(200 \times \$66.5)$	<u>13 300</u>		0.5
	252 700		
Less: Closing inventory $[(4\,000 - 200 - 2\,000 - 1\,100) \times \$66.5]$	<u>46 550</u>	206 150	1
Gross Profit		261 850	0.5
Add: Discounts received		<u>9 825</u>	0.5
		271 675	
<u>Less: Expenses</u>			
Wages and salaries	125 800		0.5
Printing and packaging expenses	<u>10 150</u>	135 950	0.5
Net profit		<u>135 725</u>	0.5
		Presentation	0.5
			(6)
			<u>10 marks</u>

END OF PAPER 1

Paper 2A
Accounting Module

SECTION A

QUESTION 1

Marks

- | | | |
|-----|------------------------------|-----|
| (A) | | 0.5 |
| (a) | (i) Sales Journal | 0.5 |
| | (ii) General Journal | 0.5 |
| | (iii) Cash Book | 0.5 |
| | (iv) Returns Inwards Journal | (2) |

- | | | | |
|-----|---|---|-----|
| (b) | — | Materiality | 1 |
| | — | It refers to the impact of an item's nature and size on the company's financial operations. Information is material if omitting it or mis-stating it could influence users' decisions. | 1 |
| | — | Because the pair of scissors is of insignificant value, Beta Company does not classify it as a non-current asset and provide depreciation for it. Instead, the cost is written off as an expense immediately. | 1 |
| | | | (3) |

(B)

b)

Accumulated depreciation – Motor van					
		\$			\$
2020			2020		
Dec 31	Balance c/d	55 200	Jan 1	Balance b/d	24 000
				$(\$180\,000 \times 20\%) \times \frac{8}{12}$	1
			Dec 31	Depreciation expense	31 200
				$(\$180\,000 - \$24\,000) \times 20\%$	0.5
		<u>55 200</u>			<u>55 200</u>
2021			2021		
Aug 1	Disposal – motor van	69 760	Jan 1	Balance b/d	55 200
			Aug 1	Depreciation expense	14 560
				$(\$180\,000 - \$55\,200) \times 20\% \times \frac{7}{12}$	0.5
		<u>69 760</u>			<u>69 760</u>
					(3)
					8 marks

Marks

Statement of financial position as at 31 December 2021

Closing trade receivables: $(\$50\,000 \times 2) - \$45\,000 = \$55\,000$

QUESTION 3

Marks

(a)

Cost item		fixed cost or variable cost	direct cost or indirect cost
When the cost object is television:			
(i)	Annual insurance premium for the factory building	(1) fixed	(2) indirect
(ii)	Testing costs for each television	(3) variable	(4) direct
When the cost object is the production department:			
(iii)	Wages of workers calculated based on units produced	(5) variable	(6) direct
(iv)	Salary of production line supervisors	(7) fixed	(8) direct

(0.5 mark for each item, max. 4 marks)

(4)

(b) Items (i) and (iv)

(1)

(c) Variable cost per unit: $(\$19\,600 - \$5\,200) / (6\,000 - 1\,500)$

= \$3.2

1

Monthly fixed cost (January - April): $[\$5\,200 - (\$3.2 \times 1\,500)]$

= \$400

1

Repair and maintenance expenses for May: $[(\$400 \times 1.1) + (\$3.2 \times 6\,500)]$

= \$21 240

1

(3)

8 marks

SECTION B
QUESTION 4

Marks

(a)

		Cash at bank					
2022		\$	2022	\$			
Mar 31			Mar 31				
0.5	(ii)	Trade payables: stale cheque	900		Balance b/d	3 710	0.5
1	(ii)	Trade payables: post-dated cheque	830	(i)	Trade receivables	730	0.5
1	(iii)	Accrued management fee	8 650	(v)	Accounts receivables: dishonoured cheque	2 400	0.5
0.5	(vi)	Term deposit	200 000	(vi)	Term deposit	80 000	0.5
0.5	(vi)	Interest income	3 800		Balance c/d	<u>127 340</u>	0.5
			<u>214 180</u>			<u>214 180</u>	(6)

(b)

Bank reconciliation statement as at 31 March 2022				
			\$	
Adjusted balance as per cash at bank account			127 340	0.5
Add: (ii) unpresented cheque — 161677			<u>1 350</u>	0.5
			128 690	
Less: (i) uncredited deposit			3 500	0.5
(iv) cancellation of standing order			<u>480</u>	1
Balance as per bank statement			<u>124 710</u>	0.5
				(3)

(c) Reason for preparing a bank reconciliation statement: (1)

- to find out and explain the differences between the balance of the cash at bank account and the balance shown in the bank statement on a given date

(d) Differences between 'standing orders' and 'direct debits':

- the payment amount is fixed for standing orders while it is variable for direct debits 1
 - the payment interval is regular for standing orders while it is irregular for direct debits 1
- (1 mark for each difference, max. 2 marks) (2)

12 marks

QUESTION 5

Marks

(a)

Amy, Ben and Bill

Income statement for the nine months ended 31 December 2021

	\$	\$	
Sales		960 000	0.5
Less: Returns inwards		<u>2 400</u>	1
		957 600	
<u>Less: Cost of goods sold</u>			
Purchases (\$490 830 - \$20 000)	470 830		1
Less: Closing inventory (Balancing figure)	<u>84 910</u>	<u>385 920</u>	0.5
Gross Profit (\$960 000 - \$4 800 - \$2 400) x 60%		571 680	1
<u>Less: Expenses</u>			
Insurance expenses (\$28 000 x $\frac{6}{12}$)	14 000		0.5
Operating expenses (\$16 500 x 9)	148 500		0.5
Cash loss (Working 1)	<u>16 270</u>	<u>178 770</u>	3
Net profit		392 910	
<u>Less: Appropriation</u>			
Partner's salary: Amy (\$30 000 x 9)		<u>270 000</u>	0.5
		<u>122 910</u>	
Share of profits – Amy [(\$122 910 - \$70 000) x $\frac{2}{5}$]		<u>21 164</u>] 0.5
– Ben [(\$122 910 - \$70 000) x $\frac{3}{5}$]		<u>31 746</u>	
– Bill		<u>70 000</u>	
		<u>122 910</u>	1

(10)

(b)

Current							
2021	Amy	Ben	Bill	2021	Amy	Ben	Bill
	\$	\$	\$		\$	\$	\$
1 Drawings		20 000		Appropriation:			
0.5 Balance c/d	<u>21 164</u>	<u>11 746</u>	<u>70 000</u>	- Share of profits	<u>21 164</u>	<u>31 746</u>	<u>70 000</u>
	<u>21 164</u>	<u>31 746</u>	<u>70 000</u>		<u>21 164</u>	<u>31 746</u>	<u>70 000</u>

(2)

12 marks

Working 1:

Cash			
2021	\$	2021	\$
Capital: Amy (\$200 000 - \$120 000)	80 000	Purchases	490 830
Capital: Ben (\$200 000 - \$9 000)	191 000	Insurance expenses	28 000
Capital: Bill	200 000	Operating expenses	148 500
Sales	960 000	Appropriation: Partner's salary	270 000
		Cash loss (Balancing figure)	16 270
		Balance c/d	<u>477 400</u>
	<u>1 431 000</u>		<u>1 431 000</u>

(Any two items 0.5 mark, max. 2.5 marks for working 1)

QUESTION 6

Marks

(a)

Ali Company
Income statement for the year ended 31 March 2023

	\$	\$	
Sales (\$6 000 000 x 75%)		4 500 000	0.5
<u>Less: Variable costs</u>			
Direct material costs (\$1 700 000 x 75%)	1 275 000		0.5
Direct labour costs (\$300 000 x 75%)	225 000		0.5
Variable production overheads (\$2 500 000 - \$2 800 000 x $\frac{7}{10}$) x 75%	405 000		0.5
Variable selling costs (\$1 000 000 - \$2 800 000 x $\frac{3}{10}$) x 75%	<u>120 000</u>	<u>2 025 000</u>	0.5
Contribution margin		2 475 000	1
<u>Less: Fixed costs</u>			
Fixed production overheads (\$2 800 000 x $\frac{7}{10}$)	1 960 000		0.5
Fixed selling costs (\$2 800 000 x $\frac{3}{10}$)	<u>840 000</u>	<u>2 800 000</u>	0.5
Net loss		<u><u>325 000</u></u>	0.5
			(5)

(b) The net profit will not decrease proportionally by 25% as fixed costs will remain unchanged. (1)

(c)

Statement to calculate the incremental profit – Option (i)

	\$	
Incremental revenues:		
- Rental income	90 000	1
- Savings in supervisor's salary	<u>72 000</u>	1
Incremental profit	<u><u>162 000</u></u>	0.5

Statement to calculate the incremental profit – Option (ii)

	\$	\$	
Incremental revenue:			
- Sales: Product K (\$800 x 1500)		1 200 000	0.5
Incremental costs:			
- Variable cost: Product K (\$300 x 1 500)	450 000		0.5
- Machine modification charge	70 000		0.5
- Loss in contribution margin: Product Y	<u>150 480</u>	<u>670 480</u>	0.5
Incremental profit		<u><u>529 520</u></u>	0.5

Ali Company should choose Option (ii) as its incremental profit is higher.

1
(6)

12 marks

SECTION C

QUESTION 7

Marks

(a)

The Journal		Dr	Cr	
		\$	\$	
(i)	Suspense	30 000		0.5
	Returns inwards		15 000	0.5
	Returns outwards		15 000	0.5
(ii)	— (No debit entry)	—		0.5
	Suspense		3 800	1
(iii)	Trade receivables (\$90 000 x 92% + \$90 000)	172 800		1
	Sales (\$82 800 x 2)		165 600	1
	Discounts allowed		7 200	0.5
(iv)	Office equipment	39 000		0.5
	Office expenses		39 000	0.5
	Depreciation expenses – office equipment (\$39 000 x 20%) x $\frac{5}{12}$	3 250		0.5
	Accumulated depreciation – office equipment		3 250	1
(v)	Office equipment (new) (\$300 000 x 90%)	270 000		1
	Accumulated depreciation – office equipment (\$45 000 x 20% x $\frac{16}{12}$)	12 000		1
	Loss on disposal (\$45 000 - \$12 000) - \$25 000	8 000		1
	Office equipment (old)		45 000	0.5
	Accounts payable		245 000	1
(vi)	Share issue	750 000		0.5
	Ordinary share capital		600 000	0.5
	Bank		150 000	0.5
(vii)	Dividend payable	180 000		0.5
	Bank		180 000	0.5
				(15)
(b)	(iv) Error of principle			1
	(vii) Error of omission			1
				(2)
(c)	— No. A 'provision' is a liability of uncertain timing or amount. The company has a present obligation resulting from a past event.			2
	— As the cost of opening the showroom is not a liability arising from a past event, the company has no present obligation to pay for it.			1
				(3)

20 marks

QUESTION 8

Marks

(a)(1)

Statement to calculate the adjusted inventory value as at 31 March 2022

	\$	\$	
Inventory value from physical inventory count		81 000	0.5
Add: (ii)(1) Goods sent to a customer on a sale-or-return basis ($\$32\,400 \div 0.9 \div 1.5$)	24 000		1
(ii)(2) Goods placed in retail shop	<u>15 000</u>	<u>39 000</u>	1
		120 000	
Less: (ii)(3) Goods written down to net realisable value [$\$13\,000 - (\$9\,800 - \$1\,400 - \$600)$]		<u>5 200</u>	1
Adjusted inventory value as at 31 March 2022		<u>114 800</u>	0.5 (4)

(a)(2)

Statement to calculate the total sales for the quarter ended 31 March 2022

	\$	\$	
Original balance of the trade receivables account as at 31 March 2022		110 400	0.5
Add: (iv) Receipts from customers	292 000		0.5
(v) Cash sales for the quarter ($\$9\,000 + \$1\,100 \times 3$)	<u>12 300</u>	<u>304 300</u>	1
		414 700	
Less: (ii)(1) Goods sent on a sale-on-return basis treated as credit sales	32 400		1
Trade receivables as at 1 January 2022	<u>162 000</u>	<u>194 400</u>	0.5
Total sales for the quarter ended 31 March 2022		<u>220 300</u>	0.5 (4)

(b)(1)

Trade payables

	2022	\$	2022	\$	
0.5 (iv) Bank	74 350		Balance b/d	58 000	0.5
1 (vi) Discounts received	2 700		Purchases (Balancing figure)	62 800	0.5
1 (vii) Purchase allowance	1 750				
0.5 Balance c/d	<u>42 000</u>				
	<u>120 800</u>			<u>120 800</u>	(4)

(b)(2)

Allowance for doubtful accounts

	2022	\$	2022	\$	
0.5 Mar 31 Trade receivables	3 900		Jan 1 Balance b/d	3 100	0.5
2 Mar 31 Balance c/d (Working 1)	<u>4 370</u>		Mar 31 Bad debts (Balancing figure)	<u>5 170</u>	1
	<u>8 270</u>			<u>8 270</u>	(4)

Workings 1: $[(70\,400 - 32\,400) \times 2\% + (\$40\,000 - \$3\,900) \times 10\%] = \$760 + \$3\,610 = \$4\,370$

(b)(3)

Bad debts

	2022	\$	2022	\$	
0.5 Mar 31 Allowance for doubtful accounts	<u>5 170</u>		Mar 31 Profit and loss	<u>5 170</u>	0.5 (1)

Alternative answer: (Starting from the 2025 HKDSE exam, the following method will not be accepted.)

(b)(2)

Allowance for doubtful accounts					
	2022		\$	2022	\$
2	Mar 31	Balance c/d (Working 1)	4 370	Jan 1	Balance b/d
				Mar 31	Profit and loss
			<u>4 370</u>		<u>1 270</u>
					<u>4 370</u>
					(4)

(b)(3)

Bad debts					
	2022		\$	2022	\$
0.5	Mar 31	Trade receivables	<u>3 900</u>	Mar 31	Profit and loss
					<u>3 900</u>
					0.5
					(1)

- (c) — Prudence 1
- the business should adopt accounting policies which are least likely to overstate assets and profits 1
- it is likely that more trade receivables would become bad debts in an economic downturn, so it is proper to increase the allowance for doubtful accounts as at 31 March 2022 1
- (3)

20 marks

End of Paper 2A