

## BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

8:30 am – 9:45 am (1 hour 15 minutes)

This paper must be answered in English

### GENERAL INSTRUCTIONS

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

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### INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)

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

Not to be taken away before the end of the examination session
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**SECTION A** (60 marks)

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

1. Which of the following statements about Hong Kong business environment is/are correct?
  - (1) Hong Kong is rich in natural resources and is self-sufficient.
  - (2) Most of the goods imported into Hong Kong come from the Mainland.
  - (3) Hong Kong government does not impose sales tax on the retailing of goods.
  - A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
2. Which of the following statements about authority and responsibility is/are correct?
  - (1) Delegation is the assigning of authority and responsibility to the subordinates.
  - (2) Front-line managers require authority to carry out their responsibilities.
  - (3) Managers with a wider span of control possess more authority.
  - A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
3. Which of the following is/are major function(s) of accounting?
  - (1) classifying transactions according to their profitability
  - (2) communicating the financial performance of the business to the stakeholders
  - (3) summarising all information of the business for users' decision-making
  - A. (1) only
  - B. (2) only
  - C. (1) and (2) only
  - D. (2) and (3) only
4. A bank offers an investment plan which requires an initial deposit of \$180 000. An investor can get a \$2 000 cash rebate upon joining the plan. Cash inflows of \$70 000 and \$150 000 will be generated at the beginning of Year 2 and Year 3 respectively. What is the net present value of the investment plan if the discount rate is 5% per annum?
  - A. \$14 973
  - B. \$22 721
  - C. \$24 721
  - D. \$31 429
5. Which of the following is the flow of the accounting cycle?
  - (1) Make period-end adjustments
  - (2) Prepare financial statements
  - (3) Record transactions in the books of original entry
  - (4) Prepare a trial balance
  - (5) Post entries to the ledger accounts
  - A. (3) → (5) → (4) → (1) → (2)
  - B. (3) → (5) → (1) → (4) → (2)
  - C. (5) → (1) → (3) → (2) → (4)
  - D. (5) → (3) → (1) → (4) → (2)

6. Ken is the owner of a sole proprietorship. Recently, he has decided to turn the firm into a private limited company. Which of the following is/are possible reason(s) for the change?
- (1) The company is a separate legal entity.
  - (2) There is no limit to the number of shareholders of the company.
  - (3) The company is not required to disclose its financial statements to the public.
- A. (1) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
7. Which of the following transactions will reduce the net profit of a firm?
- (1) Repaid trade payables by cheque.
  - (2) Bought stationery for office use.
  - (3) Returned goods to suppliers.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
8. Compared to an autocratic leadership, which of the following is/are advantage(s) of adopting democratic leadership in an organisation?
- (1) It increases efficiency in making decisions.
  - (2) It facilitates communication between superiors and subordinates.
  - (3) It induces subordinates' work initiative.
- A. (1) only
  - B. (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
9. Which of the following statements about credit cards is/are correct?
- (1) The issuing bank can check the personal credit record of an applicant before approving the credit card application.
  - (2) Collateral is required when applying for a credit card.
  - (3) The annual fee is waived if the cardholder settles the monthly credit card balance punctually.
- A. (1) only
  - B. (2) only
  - C. (3) only
  - D. (1) and (3) only
10. Which of the following transactions will lead to the same effect to the assets and capital in the accounting equation?
- (1) Received rental income by cheque.
  - (2) Repaid a bank loan by the owner's personal cheque.
  - (3) Paid expenses for the current month in cash.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)

11. Jeff and Simon are partners of a trading firm. If Simon is a limited partner, which of the following statements about the partnership is/are correct?
- (1) If Jeff withdraws from the partnership, then the firm will be closed down.
  - (2) Simon does not participate in the management of the partnership.
  - (3) The maximum loss of both partners is the amount they invested in the partnership.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
12. Ignoring other factors, which of the following will lead to an increase in the share price of a listed company selling electric vehicles?
- (1) More electric charging stations are available.
  - (2) The government announces the first registration tax concession arrangement for electric vehicles.
  - (3) A technology breakthrough which enhances the energy efficiency of electric vehicles.
- 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 'unity of direction' is/are correct?
- (1) It helps build up team spirit.
  - (2) It avoids conflicting instructions given by two superiors.
  - (3) It involves extra administrative work as managers need to conduct a periodic review of work progress of their subordinates.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
14. Which of the following transactions could enhance the liquidity of a firm?
- (1) The owner introduces cash into the firm.
  - (2) The firm obtains cash by bank overdraft.
  - (3) The firm takes out a five-year bank loan to repay trade payables.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
15. Which of the following statements about the rights and responsibilities of an investor is/are correct?
- (1) The responsibility to understand the terms of an investment contract before signing it.
  - (2) The right to decide whether to follow a broker's investment recommendations.
  - (3) The right to claim compensation if there are frequent losses in the investment.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

16. Which of the following is a benefit brought about by the 'Closer Economic Partnership Arrangement' (CEPA) to Hong Kong?
- No tariffs are imposed on goods imported from the Mainland to Hong Kong.
  - There is a free flow of labour between the Mainland and Hong Kong.
  - Hong Kong service suppliers enjoy preferential treatment when setting up business in the Southeast Asian countries.
  - Hong Kong professionals may enter the Mainland market by taking the Mainland professional qualification examinations.
17. A firm signed a contract to rent an office at a monthly rental of \$10 000 starting from 1 August 2022. The firm paid the rent for the first six months on the first day of the rental period.
- According to the \_\_\_\_\_ (1) \_\_\_\_\_, the rental expenses for the year ended 31 December 2022 amounted to \_\_\_\_\_ (2) \_\_\_\_\_.
- |    | (1)                      | (2)      |
|----|--------------------------|----------|
| A. | accrual concept          | \$50 000 |
| B. | accrual concept          | \$60 000 |
| C. | going concern assumption | \$50 000 |
| D. | going concern assumption | \$60 000 |
18. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong is/are correct?
- They provide complementary services and support to large enterprises.
  - They serve narrow markets which are not covered by large enterprises.
  - More than 90% of businesses in Hong Kong are SMEs.
- (1) only
  - (1) and (2) only
  - (2) and (3) only
  - (1), (2) and (3)
19. Which of the following persons is **not** required to make contributions to the Mandatory Provident Fund?
- An 18-year-old DSE candidate with a monthly income of \$9 000 for 3 months from a summer job in a fast food restaurant.
  - A 35-year-old part-time office clerk with a monthly income of \$7 000.
  - A 63-year-old full-time shopping mall cleaner with a monthly income of \$8 500.
  - A 40-year-old self-employed basketball coach with a monthly income of \$18 000.
20. Chan's Computer issued the following invoice to a customer on 3 April 2023. The customer settled the debt by cheque on 20 April 2023.

Chan's Computer			
Invoice			
Date: 3 April 2023			
Description	Quantity	Unit price (\$)	Amount (\$)
Web camera	3	600	1 800
Printer	4	2 100	8 400
			10 200
		Trade discount	500
		Total	9 700
To be paid within 30 days.			
10% discount if paid within 15 days.			

From the perspective of Chan's Computer, which of the following accounting entries relating to the above transactions is correct?

- The sales account should be credited by \$10 200.
- The discounts allowed account should be debited by \$970.
- A trade discount of \$500 should be credited to the trade receivables account.
- The bank account should be debited by \$9 700.

21. Which of the following statements about multinational corporations in Hong Kong is/are correct?

- (1) They also operate in other country/countries.
- (2) There must be employees recruited from overseas in their Hong Kong office.
- (3) They can be joint ventures.

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

22. Which of the following statements about the contribution of entrepreneurs is/are correct?

- (1) help implement government economic policies
- (2) help promote economic growth
- (3) widen the variety of products in the market

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

23. The following is the information related to a firm for the year ended 31 March 2023:

	\$
Capital account balance, 1 April 2022	270 000
Gross profit for the year	7 500
Cash injection by the owner	20 000
Drawings	9 000
Net loss for the year	84 000

What is the balance of the capital account as at 31 March 2023?

- A. \$157 000
- B. \$197 000
- C. \$204 500
- D. \$207 500

24. Mary has made a 1-year term deposit for \$100 000 at an annual interest rate of 4%. Which of the following statements about this term deposit is/are correct?

- (1) The annual effective interest rate is same as the annual nominal interest rate.
- (2) If the market interest rate increases six months later, the interest rate of the deposit will increase.
- (3) If Mary withdraws the money three months after making the deposit, she will get an interest income of \$1 000.

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

25. A firm was established on 1 January 2022. Calculate the amount of purchases for 2022 based on the following information:

Sales for 2022	\$1 200 000
Inventory as at 31 December 2022	\$115 000
Gross profit ratio for 2022	40%

- A. \$365 000
- B. \$595 000
- C. \$605 000
- D. \$835 000

26. Which of the following is **not** a basic listing requirement of the Main Board of the Stock Exchange of Hong Kong?

- A. market capitalisation
- B. the qualification of the Chief Executive Officer
- C. operating history
- D. cash flow

27. Which of the following is/are example(s) of a supermarket fulfilling its social responsibilities?

- (1) Offering consumption reward schemes to customers.
- (2) Reducing packaging for goods.
- (3) Providing free food coupons to senior citizens.

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

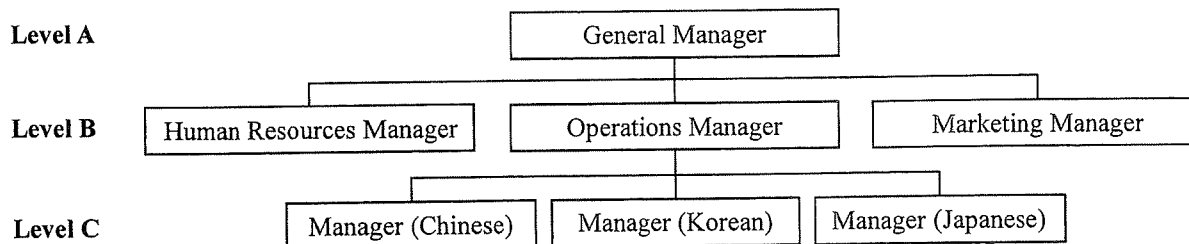
28. Which of the following double entries of a garment trading firm is correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
A.	A customer returned goods which were purchased in cash two weeks ago.	Sales	Cash
B.	The firm paid a delivery charge for goods purchased.	Carriage inwards	Purchases
C.	The firm sold an office computer on credit.	Accounts receivables	Sales
D.	The firm bought ink for office printers in cash.	Sundry expenses	Cash

29. Which of the following statements about a bondholder of a company is correct?

- A. A bondholder has voting rights in the annual general meeting of the company.
- B. A bondholder has the right to share the profits of the company.
- C. If the company is liquidated, a bondholder can get back the principal after the company has repaid the shareholders' investment.
- D. A bondholder receives periodic fixed interest even when the company makes a loss.

30. Yummy Group is a local restaurant chain which offers Chinese cuisine, Korean cuisine and Japanese cuisine to customers in different restaurants. Its organisation chart is shown as below:



The Human Resources Manager has \_\_\_\_ (1) \_\_\_\_ authority over the Operations Manager.

Level C is departmentalised by \_\_\_\_ (2) \_\_\_\_.

- |    |            |            |
|----|------------|------------|
|    | <u>(1)</u> | <u>(2)</u> |
| A. | staff      | product    |
| B. | staff      | location   |
| C. | line       | product    |
| D. | line       | location   |

END OF SECTION A

**SECTION B (30 marks)**

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

1. Cheerful Dance Studio is a dance school established in Korea specialising in teaching K-pop dance. To reap the benefits of globalisation, it is planning to enter the Hong Kong market by setting up branch schools in the form of franchising. The following advertisement is posted on a website to invite franchisees:

<p style="text-align: center;"><b>Cheerful Dance Studio</b> <i>Come and join our franchise!</i></p> <p>◇ We have more than ten years' experience in dance teaching. ◇ We provide a wide range of support: dance instructors, promotion strategies, operations... ◇ Franchise fee: \$200 000 per year ◇ Contract term: Five years</p>
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- (a) Explain two problems that may arise if Cheerful Dance Studio sets up its branch schools by franchising. (4 marks)
- (b) Explain one cultural factor that Cheerful Dance Studio should consider when setting up its branch schools in Hong Kong. (2 marks)
- (c) Explain one benefit brought about by globalisation to Cheerful Dance Studio. (2 marks)
2. Ray set up his trading firm on 16 April 2023. He brought office equipment \$20 000 and cash \$10 000 into the firm. During the first two weeks of operations, there were only two transactions as follows:
- |          |  |
|----------|--|
| April 17 | Bought goods for \$8 000 in cash.                                |
| April 28 | Received \$1 000 cash refund for goods returned to the supplier. |
- (a) Prepare the cash account and balance off the account as at 30 April 2023. (2 marks)
- (b) Prepare a trial balance as at 30 April 2023. (3 marks)
- (c) State the major function of the trial balance. (1 mark)



3. A firm produces packaged dumplings. Below is an extract of the minutes of a monthly meeting:

**Review of last quarter's production data:**

- The general manager pointed out that the actual total output of last quarter was significantly lower than expected.
- The production manager responded: To increase productivity, the production department started assigning workers to different teams last week. Each team is only responsible for one particular production task.

- (a) (i) Which management function was performed by the managers in the above scenario?  
(1 mark)
- (ii) With reference to the management function in (a)(i), state the respective step taken by the general manager and the production manager.  
(2 marks)
- (b) (i) Identify the principle of effective management adopted by the production manager.  
(1 mark)
- (ii) List two reasons why the principle of effective management in (b)(i) could increase productivity.  
(2 marks)

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

4. Henry's firm produces bottled juices and sells them via online channels. The following is the financial information related to the firm for the year ended 31 December 2022:

	\$
Sales	567 000
Gross profit	350 000
Net profit	285 000
Returns inwards	18 000
Opening balance of capital account	790 000
Closing balance of capital account	850 000

- (a) Calculate the following ratios for 2022 (to two decimal places):
- (i) net profit ratio (2 marks)
- (ii) return on capital employed (2 marks)
- (b) Explain one use of the statement of financial position of Henry's firm for its suppliers. (2 marks)

Henry's firm received a report that a high bacteria level was found in its bottled juices. Henry decided to recall the bottled juices and offer refunds to the customers. He urged the Operations Department to find ways to deal with this problem.

- (c) With reference to the functions of the Operations Department, explain two ways that Henry's firm could deal with the above problem. (4 marks)

(Total: 10 marks)

5. Kelly is the sole owner of a firm providing real estate agency services, which was established on 1 January 2021. The firm specialises in leasing private car parking space. The following are all the account balances of the firm as at 31 December 2022:

	\$
Agency commission revenue	306 040
Office equipment	49 920
Bank overdraft	14 630
Agent salaries	224 890
Bank loan (repayable in July 2023)	29 080
Capital, 1 January 2022	2 990
Administrative expenses	19 430
Drawings	5 000
Cash	53 500

- (a) Prepare an income statement for the year ended 31 December 2022. (2 marks)
- (b) Prepare a statement of financial position as at 31 December 2022. (4 marks)

Kelly is considering buying a parking space for her own car, but she does not have enough cash. She is thinking of borrowing \$500 000 by a personal loan or a bank overdraft. Her friend advises her to take out a personal loan.

- (c) Give two reasons why Kelly should borrow \$500 000 by a personal loan rather than a bank overdraft. (4 marks)

(Total: 10 marks)

**END OF PAPER**

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A**  
**Accounting Module**

10:30 am – 12:45 pm (2 hours 15 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) There are three sections in this paper.
- (2) All questions in 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) A company has been awarded 'Corporate Social Responsibility Award' as a means of recognising its contributions to promoting environmental sustainability. The owner is thinking about recording this award in the books.

**REQUIRED:**

- (a) Explain, with the most relevant accounting principle or concept, whether the award should be recorded in the books. (3 marks)

- (B) The following are some measurement bases and accounting principles/concepts:

**Measurement base**

- ♦ Cost
- ♦ Fair value
- ♦ Liquidation value
- ♦ Net book value
- ♦ Net realisable value

**Accounting principle/concept**

- ♦ Business entity
- ♦ Going concern
- ♦ Historical cost
- ♦ Objectivity
- ♦ Prudence

Situation		Measurement base	Accounting principle/concept
(i)	Due to spoilage, the net realisable value of the goods in the warehouse fell below its cost.	Net realisable value	(1)
(ii)	A company plans to cease trading next year. The liquidation value of its factory building is different from the net book value at current financial year end.	(2)	(3)
(iii)	The owner brought his photographic equipment, which was acquired two years ago, into the business. A professional valuer estimated that the fair value of the equipment was higher than its cost.	(4)	(5)

**REQUIRED:**

- (b) Referring to the measurement bases and accounting principles/concepts given above, state the measurement base to be recorded in the books and identify the most relevant accounting principle/concept for the determination of the measurement base for each of the situations (i) to (iii).

Write your answers for items (1) to (5) in the answer book.

(5 marks)

(Total: 8 marks)

2. Tim Limited made all purchases and sales on credit. The following information for 2022 is available:

Inventory, 1 January 2022	\$ 280 000
Sales for 2022	930 000
Average trade payables for 2022	296 000
<u>Account balance as at 31 December 2022</u>	
Non-current assets, net	\$ 1 690 000
Trade receivables	220 000
Bank	486 000
Inventory	320 000
<u>Ratio of Tim Limited for 2022</u>	
Trade payables turnover	4.5 times
Earnings per share	\$2.6

On 31 December 2022, the market price of the ordinary shares of Tim Limited was \$16 each.

The industry average of the total assets turnover for 2022 was 0.42 times.

**REQUIRED:**

- (a) Calculate (to two decimal places) the following ratios for 2022:
- (1) price-earnings ratio (2 marks)
  - (2) total assets turnover (in times) (2 marks)
  - (3) inventory turnover (in times) (2 marks)
- (b) Based on the total assets turnover, briefly comment on the management efficiency of Tim Limited for 2022. (2 marks)

(Total: 8 marks)

3. Jacky Company is a watch manufacturer established on 1 January 2022. In its first year of operations, the production quantity and sales quantity of watches were 8 000 units and 6 500 units respectively. The information for the year ended 31 December 2022 is given below:

- (i) The fixed manufacturing overheads for 2022 were budgeted at \$1 728 000. The company uses the absorption costing system and absorbs the fixed manufacturing overheads based on direct labour hours.
- (ii) It was estimated that 28 800 direct labour hours would be used in 2022.
- (iii) The following actual data for the year ended 31 December 2022 is provided:

	\$
Sales	5 200 000
Direct materials purchased	700 000
Inventory of direct materials, 31 December	164 000
Direct labour cost (hourly wage rate \$50)	1 400 000
Fixed manufacturing overheads	1 920 000
Administrative overheads	493 000

**REQUIRED:**

- (a) Calculate the under-absorption or over-absorption of fixed manufacturing overheads for 2022. (3 marks)
- (b) Based on the predetermined fixed manufacturing overhead absorption rate, prepare for Jacky Company,
  - (1) a statement to calculate the unit cost of goods manufactured in 2022. (2 marks)
  - (2) an income statement for the year ended 31 December 2022, showing the under-absorption or over-absorption of fixed manufacturing overheads. (3 marks)

(Total: 8 marks)

**SECTION B (24 marks, weighting 45%)**

Answer **TWO** questions in this section.

4. Candy is a sole trader operating a garment trading business. After preparing the closing entries, the firm drafted the following trial balance as at 31 December 2022:

	Dr \$	Cr \$
Motor vans	420 000	
Accumulated depreciation - Motor vans		168 000
Inventory	136 000	
Trade receivables	290 000	
Trade payables		9 000
Cash	10 000	
Bank overdraft	8 000	
Capital, 31 December 2022		671 000
Suspense		16 000
	<u>864 000</u>	<u>864 000</u>

After investigation, the following errors were identified:

- (i) The closing inventory value was wrongly calculated. The weighted average cost method should be used for inventory valuation. Information relating to the inventory is provided as below:

	<u>Quantity</u> Unit	<u>Purchase cost per unit</u> \$
Opening inventory	100	800
Total purchases for the year	250	835
Closing inventory (based on physical inventory count)	170	?

- (ii) A store room of the office was sublet to Candy's friend. Total cash receipt for the rental period from 1 January 2022 to 31 March 2023 was \$140 000, of which \$20 000 was a rental deposit to be refunded at the end of the rental period. Candy mistakenly recorded the whole amount in the rental income account of 2022.
- (iii) A water bill of \$5 800 for the last quarter of 2022 was received in early January 2023. No record was made in the books of 2022.
- (iv) In November 2022, Candy received a debit note of \$7 000 for goods returned, but no entries were made for this return.
- (v) Cash of \$2 200 received from a credit customer was wrongly recorded as a settlement of outstanding amount to a supplier of stationery.
- (vi) The bank overdraft balance was listed in the wrong column of the trial balance.

**REQUIRED:**

- (a) Prepare the necessary journal entries to correct the above errors. Narrations are not required.  
(10 marks)
- (b) With reference to item (iii) above, explain the difference in the recognition of expense between cash accounting and accrual accounting.  
(2 marks)

(Total: 12 marks)



5. (A) The following are the account balances extracted from the books of Windy Limited as at 1 January 2022:

	\$
Ordinary share capital (800 000 shares)	2 800 000
Retained profits	560 000
General reserve	250 000

Additional information:

(i) The company raised funds in 2022 for future expansion. Details are as follows:

<u>Date</u>	<u>Transaction</u>
2 April	Received subscriptions for 350 000 ordinary shares of \$4.5 each and recorded in the 'share application and allotment account'.
8 April	Allotted 200 000 ordinary shares to successful applicants.
11 April	Refunded to unsuccessful applicants.
1 August	Issued a ten-year 3% debenture of \$1 000 000.

(ii) Net profit before interest and tax for the year ended 31 December 2022 amounted to \$540 000.

(iii) Profits tax for the year was estimated at \$65 000.

(iv) The board of directors declared and paid an interim ordinary dividend of \$0.15 per share in July 2022. Final ordinary dividend of \$0.1 per share for 2022 was declared in January 2023.

(v) On 31 December 2022, the board of directors resolved to increase the general reserve to \$380 000.

**REQUIRED:**

(a) Prepare for Windy Limited,

(1) the journal entries to record the allotment of ordinary shares and the refund to unsuccessful applicants in April 2022. Narrations are not required. (2 marks)

(2) a statement to calculate the retained profits as at 31 December 2022. (4 marks)

(B) The management of Windy Limited is considering replacing the existing delivery van with an electric van. The following information is available:

(i) The existing delivery van, with a net book value of \$80 000, has a remaining useful life of four years. Additional cost of \$70 000 would be incurred to extend its useful life to six years, with no expected residual value.

(ii) The list price of the new electric van and the trade-in value of the existing delivery van are \$630 000 and \$50 000 respectively. The estimated useful life of the new electric van is six years and its residual value is expected to be \$30 000.

(iii) Using the new electric van will save a running cost of \$90 000 per year.

**REQUIRED:**

(b) Define 'sunk cost', and give an example of a sunk cost from the above case. (2 marks)

(c) Briefly explain, with supporting calculations in statement form, whether Windy Limited should replace the existing delivery van with an electric van. (4 marks)

(Total: 12 marks)

6. (A) Super Company is a stationery producer. On 1 July 2021, it acquired four machines costing \$36 000 each. The estimated useful life of the machines was five years and the residual value of each was \$3 000. It is the company's policy to charge depreciation on machinery using the straight-line method on a monthly basis.

On 1 October 2022, one of the machines was traded in for a new model that costs \$80 000 for the production of rulers. The trade-in value of the old model was \$25 000. Depreciation of the new machine is to be provided based on production quantity. It was expected that the total production quantity of the new machine would be 500 000 units. The actual production quantity for the last quarter of 2022 was 75 000 units.

**REQUIRED:**

- (a) Prepare the following accounts for the year ended 31 December 2022:

- |  |           |
|--|-----------|
| (1) Accumulated depreciation account – machinery | (3 marks) |
| (2) Disposal account – machinery                 | (2 marks) |

- (B) Super Company produces and sells two types of stationery: rulers and ball pens. The following is the budgeted data for June 2023:

	<u>Ruler</u>	<u>Ball pen</u>
Estimated demand	20 000 units	40 000 units
Selling price per unit	\$3	\$4.5
Production requirement per unit	0.4 machine minutes	0.8 machine minutes
Variable production cost per unit	\$1.4	\$2.2

Budgeted fixed production cost and fixed administrative cost are \$50 000 and \$13 400 respectively.

**REQUIRED:**

- (b) Explain the meaning of 'margin of safety'. (1 mark)
- (c) Assume the stationery is sold in packages, with one ruler and two ball pens in each package, calculate:
- |  |           |
|--|-----------|
| (1) the contribution margin per sales mix.   | (2 marks) |
| (2) the sales quantity of each type of stationery, to achieve a target profit of \$66 800 for June 2023. | (2 marks) |

Assume there will be only 39 000 machine minutes available in June 2023 due to scheduled maintenance. To maximise the total contribution at its full capacity, Super Company decides to sell the rulers and ball pens separately rather than in packages.

**REQUIRED:**

- (d) Calculate the production quantity for each type of stationery in June 2023. (2 marks)

(Total: 12 marks)

**SECTION C (20 marks, weighting 25%)**

Answer **ONE** question in this section.

7. Chan and Chow have been in partnership, operating a retail shop for many years. The financial year of the partnership ends on 31 December.

The partnership agreement includes the following terms:

- Chan and Chow would share profits and losses in the ratio of 2:3.
- Interest on capital of 8% per annum would be calculated on the opening balances of the capital accounts.
- Interest on drawings of 5% per annum would be charged.
- Chan was entitled to a monthly salary of \$20 000.

The following account balances were extracted from the books of the partnership as at 31 December 2022:

	Dr \$	Cr \$
Furniture, net	950 000	
Delivery vans, net	650 000	
Inventory, 31 December 2022	230 000	
Trade receivables	257 000	
Trade payables		165 000
Long-term bank loan		360 000
Bank	346 000	
Net profit before appropriations		41 000
Capital accounts:		
– Chan		600 000
– Chow		900 000
Current accounts:		
– Chan		228 600
– Chow		348 400
Drawings:		
– Chow (withdrawn on 1 May 2022)	<u>210 000</u>	
	<u>2 643 000</u>	<u>2 643 000</u>

Before preparing the appropriation account, the following errors were found:

- (i) Inventory as at 31 December 2022 was overstated by \$21 000.
- (ii) The bookkeeper recorded credit sales of \$40 000 twice.
- (iii) The interest on capital to partners and the annual salary to Chan were paid at the end of 2022, but they were recorded as operating expenses for the year.

**REQUIRED:**

- (a) Prepare the appropriation account of the partnership for the year ended 31 December 2022.  
(5 marks)

On 1 January 2023, Chan retired and Chow invited his friend Ching to join the partnership with the following arrangements:

- (iv) Chow and Ching would share profits and losses equally.
- (v) Goodwill was to be valued at \$250 000. The new partnership would not keep a goodwill account in the books. The adjustments for goodwill between partners would be made in the capital accounts directly.
- (vi) The furniture was to be revalued at \$980 000 while the delivery vans were to be revalued downwards by 10% of the net book value. The partnership paid a professional fee of \$10 000 by cheque for revaluing the non-current assets, but this fee had not yet been recorded in the books.
- (vii) Inventory was to be written down by \$22 000.
- (viii) To settle Chan's account, the partnership would issue a cheque for \$320 000 to him on his retirement date. The remaining amount would be left as a half-year interest-free loan to the new partnership.
- (ix) The agreed total capital balance of the new partnership would be \$2 000 000, to be contributed by Chow and Ching equally. Any surplus or deficit of Chow's capital account would be adjusted through his current account. Ching had to repay the long-term bank loan on behalf of the partnership, and bring in a new delivery van valued at \$270 000, together with sufficient funds by cheque so that his capital account would meet the agreed balance.

**REQUIRED:**

- (b) Prepare the following to record the retirement of Chan and the admission of Ching:
  - (1) the revaluation account (2 marks)
  - (2) the partners' capital accounts in columnar form (6 marks)
  - (3) the statement of financial position for the new partnership as at 1 January 2023 (5 marks)
- (c) Briefly explain whether the interest-free loan stated in (viii) above would affect the solvency of the new partnership. (2 marks)

(Total: 20 marks)

8. Mr Wong is a sole trader engaging in the computer accessories retail business. On 31 December 2022, a fire broke out in the warehouse. Except for goods costing \$65 000 kept in the retail shop, all inventory was destroyed. Many accounting records were lost in the fire.

After investigation, the following information is available:

- (i) Some account balances of the business as at 1 January 2022 were confirmed as follows:
- |                                      |         |
|--------------------------------------|---------|
|                                      | \$      |
| Equipment                            | 830 000 |
| Accumulated depreciation – equipment | 298 800 |
| Inventory                            | 238 000 |
| Trade receivables                    | 360 000 |
| Allowance for doubtful accounts      | 10 800  |
| Trade payables                       | 250 000 |
- (ii) Based on the bank statements, a summary of receipts and payments for 2022 was prepared as follows:
- |  |                |                  |
|--|----------------|------------------|
|  | \$             | \$               |
| Balance as at 1 January 2022           |                | 380 500          |
| <u>Receipts</u>                        |                |                  |
| Cash sales                             | 350 000        |                  |
| Cheques received from credit customers | <u>930 000</u> | <u>1 280 000</u> |
|  |                | 1 660 500        |
| <u>Payments</u>                        |                |                  |
| Cheques issued to suppliers            | 810 700        |                  |
| Administrative expenses                | 247 500        |                  |
| Purchase of equipment                  | <u>180 000</u> | <u>1 238 200</u> |
| Balance as at 31 December 2022         |                | <u>422 300</u>   |
- (iii) On 31 December 2022, cheques totalled \$38 100 issued to suppliers were not yet presented for payment. Cheques of \$17 600 received from customers were also deposited but not yet credited by the bank.
- (iv) A direct debit of \$2 500 for management fee was mistakenly made by the bank on 30 December 2022. The bank should have debited the account of another customer. The bank informed Mr Wong that the adjustment would be made in early January 2023.
- (v) Sales were made both in cash and on credit, while purchases were made on credit and settled by cheque. Goods were normally sold at a mark-up of 60%.
- (vi) Cash sales for 2022 included some outdated goods, which were sold at cost of \$5 000 to a customer. Cash sales were banked after deducting Mr Wong's drawings of \$11 000 per month.
- (vii) In October 2022, a customer who made a purchase for \$8 800 in March 2022 was declared bankrupt.
- (viii) During the year, goods returned by credit customers amounted to \$26 000 whereas discounts received amounted to \$1 500.
- (ix) In November 2022, the business deposited a cheque of \$4 000 received from a credit customer into the bank. The cheque was for settlement of the debt which had been written off in 2021.
- (x) Mr Wong confirmed that the amount due from customers and the amount due to suppliers as at 31 December 2022 were \$309 000 and \$245 000 respectively. An allowance for doubtful accounts of 3% on the balance of the trade receivables account was to be provided on 31 December 2022.

- (xi) Depreciation of 20% per annum is to be charged on equipment using the reducing-balance method. A full year's depreciation is to be provided in the year of acquisition.
- (xii) The insurance company agreed to compensate 80% of the inventory destroyed in the fire.

**REQUIRED:**

- (a) Prepare a bank reconciliation statement as at 31 December 2022, commencing with the balance as per bank statement. (3 marks)
  - (b) Prepare the following for the year ended 31 December 2022:
    - (1) trade receivables account (3 marks)
    - (2) allowance for doubtful accounts account (2 marks)
    - (3) an income statement (12 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 answers, 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 key concept/phrases and key words  
2 / 3 marks : a relevant point with a brief explanation of the key 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.	D (67%)	16.	D (22%)
2.	B (23%)	17.	A (61%)
3.	B (23%)	18.	D (47%)
4.	C (51%)	19.	B (57%)
5.	A (73%)	20.	D (57%)
6.	A (37%)	21.	C (81%)
7.	B (58%)	22.	C (66%)
8.	C (67%)	23.	B (63%)
9.	A (77%)	24.	A (55%)
10.	C (35%)	25.	D (45%)
11.	B (55%)	26.	B (82%)
12.	D (61%)	27.	C (53%)
13.	A (56%)	28.	D (66%)
14.	C (48%)	29.	D (69%)
15.	B (79%)	30.	A (19%)

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

## SECTION B Part 1

### QUESTION 1

Marks

- (a) Problems: 4
- difficult to fully control the franchisees, e.g. the operation style and teaching quality
  - if the franchisee is not well operated, there may be negative impacts on the brand image of the franchisor
  - the franchisee may become competitor by setting up its own dance school, with an operating and teaching style similar to those of the franchisor
- (2 marks for each problem, max. 4 marks)
- (b) Cultural factors: 2
- tastes and preferences of customers in Hong Kong, e.g. types of dance/music that Hong Kong customers prefer
  - norms and value of Hong Kong society, e.g. perceive dancing as a leisure, healthy and/or trendy activity
- (2 marks for each factor, max. 2 marks)
- (c) Benefits: 2
- global sourcing of wider variety of resources of higher quality and at lower cost, e.g. dance instructors, music and costumes
  - technology transfer, e.g. adopt the latest technology (e.g. virtual reality) in dance teaching
  - can expand to overseas markets and widen the customer base
- (2 marks for each benefit, max. 2 marks)

8 marks

### QUESTION 2

Marks

- (a) Cash
- |     | 2023   |                  | \$            | 2023   |             | \$            |     |
|-----|--------|------------------|---------------|--------|-------------|---------------|-----|
| 0.5 | Apr 16 | Capital          | 10 000        | Apr 17 | Purchases   | 8 000         | 0.5 |
| 0.5 | Apr 28 | Returns outwards | 1 000         | Apr 30 | Balance c/d | 3 000         | 0.5 |
|     |        |                  | <u>11 000</u> |        |             | <u>11 000</u> |     |
- (2)
- (b) Ray
- Trial balance as at 30 April 2023
- |                  | Dr            | Cr                  |     |
|------------------|---------------|---------------------|-----|
|                  | \$            | \$                  |     |
| Office equipment | 20 000        |                     | 0.5 |
| Cash             | 3 000         |                     |     |
| Purchases        | 8 000         |                     | 0.5 |
| Capital          |               | 30 000              | 0.5 |
| Returns outwards |               | <u>1 000</u>        | 0.5 |
|                  | <u>31 000</u> | <u>31 000</u>       | 0.5 |
|                  |               | <b>Presentation</b> | 0.5 |
- (3)
- (c) Major function: 1
- to check the accuracy of bookkeeping entries

6 marks



**QUESTION 3****Marks**

- |     |      |   |        |
|-----|------|---|--------|
| (a) | (i)  | Controlling   | 1      |
|     | (ii) | general manager: compares actual performance with the standards<br>production manager: takes corrective action                          | 1<br>1 |
| (b) | (i)  | Division of work  | 1      |
|     | (ii) | Reasons:<br>— practice makes perfect<br>— time-saving in training/switching from task to task<br>(1 mark for each reason, max. 2 marks) | 2      |

**6 marks****Part 2****QUESTION 4****Marks**

- |     |       |  |   |
|-----|-------|--|---|
| (a) | (i)   | Net profit ratio:<br>$\frac{\$285\,000}{(\$567\,000 - \$18\,000)} \times 100\% = 51.91\%$  | 2 |
|     | (ii)  | Return on capital employed:<br>$\frac{\$285\,000}{(\$790\,000 + \$850\,000) \times 0.5} \times 100\% = 34.76\%$                                | 2 |
| (b) | —     | the suppliers assess the liquidity/repayment ability of Henry's firm to decide whether to sell goods to the firm on credit                     | 2 |
| (c) | Ways: |  | 4 |
|     | —     | inventory management, e.g. ensure that the stock level of bottled juices is kept at a proper level to avoid spoilage                           |   |
|     | —     | quality control, e.g. assure the quality of the bottled juices by regular inspection, check the materials to see whether there is rotten fruit |   |
|     | —     | re-design the production process to reduce bacteria levels, e.g. reduce the production time to prevent fruit from rotting                      |   |
|     |       | (2 marks for each way, max. 4 marks)   |   |

**10 marks**

QUESTION 5

Starting from the 2026 HKDSE exam, only the vertical form of financial statements will be accepted.

Marks

- (a) Kelly  
Income statement for the year ended 31 December 2022
- |                           | \$      | \$      |     |
|---------------------------|---------|---------|-----|
| Agency commission revenue |         | 306 040 | 0.5 |
| <u>Less: Expenses</u>     |         |         |     |
| Agent salaries            | 224 890 |         | 0.5 |
| Administrative expenses   | 19 430  | 244 320 | 0.5 |
| Net Profit                |         | 61 720  | 0.5 |
|                           |         |         | (2) |
- 
- (b) Kelly  
Statement of financial position as at 31 December 2022
- |                                  | \$     | \$                  |     |
|----------------------------------|--------|---------------------|-----|
| <u>Non-current assets</u>        |        |                     |     |
| Office equipment                 |        | 49 920              | 0.5 |
| <u>Current assets</u>            |        |                     |     |
| Cash                             | 53 500 |                     | 0.5 |
| <u>Less: Current liabilities</u> |        |                     |     |
| Bank loan                        | 29 080 |                     | 0.5 |
| Bank overdraft                   | 14 630 |                     | 0.5 |
|                                  | 43 710 | 9 790               |     |
|                                  |        | 59 710              |     |
| <u>Financed by</u>               |        |                     |     |
| Capital, 1 January 2022          |        | 2 990               | 0.5 |
| Add: Net profit                  |        | 61 720              | 0.5 |
|                                  |        | 64 710              |     |
| Less: Drawings                   |        | (5 000)             | 0.5 |
|                                  |        | 59 710              |     |
|                                  |        | <b>Presentation</b> | 0.5 |
|                                  |        |                     | (4) |
- 
- (c) Reasons: (4)
- the interest rate on a personal loan is lower than on a bank overdraft
  - there is a fixed repayment schedule for a personal loan, so Kelly can have better repayment planning and set the repayment schedule based on her financial situation
  - difficult to get a sufficient amount using a bank overdraft as the loan amount is quite high
- (2 marks for each reason, max. 4 marks)

10 marks

END OF PAPER 1

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

**Starting from the 2026 HKDSE exam, only the vertical form of financial statements will be accepted.**

**SECTION A**

**QUESTION 1**

**Marks**

- |        |  |         |
|--------|--|---------|
| (A)(a) | – money measurement  | 1       |
|        | – only transactions that can be expressed in monetary terms are recorded in the accounting books of a business | 1       |
|        | – as the award cannot be quantified in terms of money, no accounting record should be made for this item       | 1       |
|        |  | (3)     |
|        |  |         |
| (B)(b) | (1) Prudence   | 1       |
|        | (2) Liquidation value  | 1       |
|        | (3) Going concern  | 1       |
|        | (4) Fair value   | 1       |
|        | (5) Objectivity  | 1       |
|        |  | (5)     |
|        |  | 8 marks |

**QUESTION 2**

**Marks**

- |     |   |   |
|-----|---|---|
| (a) | (1) Price-earnings ratio:   | 2 |
|     | $= \frac{\$16}{\$2.6} = 6.15$   |   |
|     |   |   |
|     | (2) Total assets turnover:  | 2 |
|     | $= \frac{\$930\,000}{(\$1\,690\,000 + \$220\,000 + \$486\,000 + \$320\,000)} = \frac{\$930\,000}{\$2\,716\,000} = 0.34 \text{ times}$   |   |
|     |   |   |
|     | (3) Inventory turnover:   | 2 |
|     | $= \frac{\$280\,000 + (\$296\,000 \times 4.5) - \$320\,000}{(\$280\,000 + \$320\,000) \div 2} = \frac{\$1\,292\,000}{\$300\,000} = 4.31 \text{ times}$  |   |
|     |   |   |
| (b) | The total assets turnover of Tim Limited was lower than the industry average of 2022, which reflected that it was less efficient in utilising total assets to generate sales revenue than average companies in the same industry. | 2 |

8 marks

### QUESTION 3

Marks

- (a) Predetermined fixed manufacturing overhead absorption rate:

1

$$= \frac{\$1\,728\,000}{28\,800}$$

$$= \$60 \text{ per direct labour hour}$$

	\$	
Actual fixed manufacturing overheads	1 920 000	0.5
Absorbed fixed manufacturing overheads $(\$60 \times \frac{\$1\,400\,000}{\$50})$	<u>1 680 000</u>	1
Under-absorbed fixed manufacturing overheads	<u><u>240 000</u></u>	0.5 (3)

- (b)(1)

#### Statement to calculate the unit cost of goods manufactured in 2022

	\$	
Direct material cost $(\$700\,000 - \$164\,000) \div 8\,000$	67	0.5
Direct labour cost $(\$50 \times 3.5 \text{ hours}^*)$	175	0.5
Fixed manufacturing overheads absorbed $(\$60 \times 3.5 \text{ hours}^*)$	<u>210</u>	0.5
Unit cost	<u><u>452</u></u>	0.5
<i>*3.5 hours = <math>(\\$1\,400\,000 \div 8\,000 \div 50)</math></i>		(2)

- (b)(2)

#### Jacky Company Income statement for the year ended 31 December 2022

	\$	\$	
Sales		5 200 000	0.5
Less: Cost of goods sold $(6\,500 \text{ units} \times \$452) \text{ or } (\$3\,616\,000 - \$1\,500 \times \$452)$	2 938 000		0.5
Under-absorbed fixed manufacturing overheads	<u><u>240 000</u></u>	<u>3 178 000</u>	0.5
Gross profit		2 022 000	0.5
Less: Administrative overheads		<u>493 000</u>	0.5
Net profit		<u><u>1 529 000</u></u>	0.5 (3)

8 marks

# SECTION B

## QUESTION 4

Marks

(a) The Journal		Dr	Cr	
		\$	\$	
(i)	Inventory $[(\$800 \times 100 + \$835 \times 250) \div 350 \times 170] - \$136\,000$	4 250		2
	Capital		4 250	0.5
(ii)	Capital	44 000		0.5
	Unearned rental income $(\$140\,000 - \$20\,000) \times \frac{1}{15}$		24 000	1
	Rental deposit from tenant		20 000	0.5
(iii)	Capital	5 800		0.5
	Accrued water expenses		5 800	0.5
(iv)	Capital	7 000		0.5
	Trade receivables		7 000	1
(v)	Cash	4 400		0.5
	Trade receivables		2 200	0.5
	Other payables		2 200	0.5
(vi)	Suspense	16 000		1
	/ (No credit entry)		—	0.5
				(10)
(b)	– Under cash accounting, expenses are recognised when paid. Under accrual accounting, expenses are recognised when incurred.			1
	– In item (iii), though Candy's firm would pay the amount in 2023 after receiving the water bill, water expenses of \$5 800 had been incurred in 2022 when the water was used. Under accrual accounting, the firm should recognise this as water expenses for 2022.			1
				(2)

12 marks

**QUESTION 5**
**Marks**
**(A)**
**(a)(1)**

The Journal			
		Dr \$	Cr \$
2022			
April 8	Share application and allotment	900 000	
	Ordinary share capital		900 000
April 11	Share application and allotment	675 000	
	Bank (350 000 - 200 000) x \$4.5		675 000

**(a)(2)**

Statement to calculate the retained profits as at 31 December 2022			
	\$	\$	
Retained profits as at 1 January 2022		560 000	0.5
Add: Net profit for the year [ $\$540\,000 - \$65\,000 - (\$1\,000\,000 \times 3\% \times \frac{5}{12})$ ]		<u>462 500</u>	1.5
		1 022 500	
Less: Interim ordinary dividend [ $\$0.15 \times (800\,000 + 200\,000)$ ]	150 000		1
Transfer to general reserve ( $\$380\,000 - \$250\,000$ )	<u>130 000</u>	<u>280 000</u>	0.5
Retained profits as at 31 December 2022		<u><u>742 500</u></u>	0.5
			(4)

**(B)**

- (b) – Sunk cost is a cost that has already been incurred, and cannot be changed by any decisions made now or in the future. 1
- Example: the net book value of the existing delivery van \$80 000 1
- (2)

**(c)**

Statement to calculate the cost savings of replacing the existing delivery van with the new electric van			
		\$	
Saving in improvement cost of the existing van		70 000	0.5
Saving in running cost ( $\$90\,000 \times 6$ )		<u>540 000</u>	1
		610 000	
Less: Cost of the new electric van ( $\$630\,000 - \$50\,000 - \$30\,000$ )		<u>(550 000)</u>	1
Cost savings		<u><u>60 000</u></u>	0.5
The company should replace the existing delivery van with the electric van as cost savings of \$60 000 will result.			1
			(4)

12 marks

QUESTION 6

Marks

(A)

(a)(1)

Accumulated Depreciation – machinery							
2022			\$	2022			\$
0.5	Oct 1	Disposal – machinery (\$36 000 - \$3 000) ÷ 5 x <sup>15</sup> / <sub>12</sub>	8 250	Jan 1	Balance b/d [((\$36 000 - 3 000) ÷ 5 x <sup>6</sup> / <sub>12</sub> ) x 4]	13 200	0.5
0.5	Dec 31	Balance c/d	41 700	Oct 1	Depreciation expenses (\$550 x 9)	4 950	0.5
				Dec 31	Depreciation expenses (\$550 x 3 x 12) + (80 000 x <sup>75 000</sup> / <sub>500 000</sub> )	31 800	1
			<u>49 950</u>			<u>49 950</u>	(3)

(a)(2)

(a)(2)

Disposal – machinery							
2022			\$	2022			\$
0.5	Oct 1	Machinery	36 000	Oct 1	Accumulated depreciation	8 250	0.5
					- machinery		
					Machinery	25 000	0.5
					Loss on disposal	<u>2 750</u>	0.5
			<u>36 000</u>			<u>36 000</u>	(2)

(B)

(b) Margin of safety: the difference between budgeted/actual sales level and the breakeven sales point (1)

(c)(1)

	Ruler	Ball pen	
	\$	\$	
Selling price	3	4.5	
Less: Variable production cost	(1.4)	(2.2)	
Contribution margin	<u>1.6</u>	<u>2.3</u>	1
Contribution margin per sales mix = (\$1.6 x 1) + (\$2.3 x 2) = \$6.2 per sales mix			1
			(2)

(c)(2) Sales to achieve a target profit of \$66 800 =  $\frac{(\$50\,000 + \$13\,400 + \$66\,800)}{\$6.2}$  = 21 000 packages 1

Therefore, sales quantity of rulers: 21 000 x 1 = 21 000 units 0.5  
sales quantity of ball pens: 21 000 x 2 = 42 000 units 0.5  
(2)

(d)

	Ruler	Ball pen	
Contribution margin per unit	\$1.6	\$2.3	
Contribution margin per machine minute (\$1.6/0.4; \$2.3/0.8)	\$4	\$2.875	
	per minute	per minute	
Priority	1 <sup>st</sup>	2 <sup>nd</sup>	
Production quantity	20 000 units	38 750 units	2
		(39 000 minutes - 0.4 x 20 000) ÷ 0.8	(2)

12 marks

**SECTION C**  
**QUESTION 7**

**Marks**

(a)

**Appropriation account for the year ended 31 December 2022**

	\$	\$	
Net profit for the year (\$41 000 - \$21 000 - \$40 000 + \$120 000 + \$240 000)		340 000	2.5
Add: Interest on drawings			
– Chow (\$210 000 × 5% × $\frac{8}{12}$ )		<u>7 000</u>	0.5
		347 000	
Less: Interest on capital			
– Chan (\$600 000 × 8%)	48 000		0.5
– Chow (\$900 000 × 8%)	<u>72 000</u>	120 000	0.5
Salary to partner – Chan (\$20 000 × 12)		<u>240 000</u>	0.5
		<u>(13 000)</u>	
Share of loss:			
– Chan ( $\frac{2}{5}$ )		(5 200)	0.5
– Chow ( $\frac{3}{5}$ )		<u>(7 800)</u>	
		<u>(13 000)</u>	
			(5)

(b)(1)

**Revaluation**

2023	\$	2023	\$	\$	
Jan 1		Jan 1			
0.5 Delivery vans (\$650 000 × 10%)	65 000	Furniture (\$980 000 - \$950 000)		30 000	0.5
0.5 Bank: Professional fee	10 000	Capital-Chan: revaluation loss	26 800		
0.5 Inventory	22 000	Capital-Chow: revaluation loss	<u>40 200</u>		
				<u>67 000</u>	
	<u>97 000</u>			<u>97 000</u>	
					(2)

(b)(2)

**Capital**

2023	Chan	Chow	Ching	2023	Chan	Chow	Ching	
Jan 1	\$	\$	\$	Jan 1	\$	\$	\$	
0.5 Capital: goodwill		125 000	125 000	Balance b/d	600 000	900 000		0.5
0.5 Revaluation: loss	26 800	40 200		Capital: goodwill	100 000	150 000		0.5
0.5 Bank	320 000			Current (Working 1)	223 400	115 200		1
0.5 Loan from Chan	576 600			Long-term bank loan			360 000	0.5
0.5 Balance c/d		1 000 000	1 000 000	Delivery vans			270 000	0.5
				Bank			<u>495 000</u>	0.5
	<u>923 400</u>	<u>1 165 200</u>	<u>1 125 000</u>		<u>923 400</u>	<u>1 165 200</u>	<u>1 125 000</u>	
								(6)

Working 1:

**Current**

2022	Chan	Chow	2022	Chan	Chow
Dec 31	\$	\$	Jan 1	\$	\$
Drawings		210 000	Balance b/d	228 600	348 400
Appropriation:					
– Interest on drawings		7 000			
– Share of loss	5 200	7 800			
Balance c/d	<u>223 400</u>	<u>123 600</u>			
	<u>228 600</u>	<u>348 400</u>		<u>228 600</u>	<u>348 400</u>
2023			2023		
Jan 1			Jan 1		
Capital	223 400	115 200	Balance b/d	223 400	123 600
Balance c/d		8 400			
	<u>223 400</u>	<u>123 600</u>		<u>223 400</u>	<u>123 600</u>



QUESTION 7 (con't)

	Chow and Ching		Marks
(b)(3)	Statement of financial position as at 1 January 2023		
	\$	\$	
<b><u>Non-current assets</u></b>			
Furniture		980 000	0.5
Delivery vans ( $\$650\,000 \times 90\% + \$270\,000$ )		<u>855 000</u>	1
		1 835 000	
<b><u>Current assets</u></b>			
Inventory ( $\$230\,000 - \$21\,000 - \$22\,000$ )	187 000		0.5
Trade receivables ( $\$257\,000 - \$40\,000$ )	217 000		0.5
Bank ( $\$346\,000 - \$10\,000 - \$320\,000 + \$495\,000$ )	<u>511 000</u>		0.5
	<u>915 000</u>		
<b><u>Less: Current liabilities</u></b>			
Trade payables	165 000		0.5
Loan from Chan	<u>576 600</u>		0.5
	<u>741 600</u>		
Net current assets		<u>173 400</u>	
		<u>2 008 400</u>	
<b><u>Financed by</u></b>			
Capital – Chow		1 000 000	} 0.5
– Ching		<u>1 000 000</u>	
		2 000 000	
Current – Chow (working 1)		<u>8 400</u>	0.5
		<u>2 008 400</u>	(5)
(c)	The interest-free loan would not affect the solvency of the new partnership as it is a short-term loan.		(2)

20 marks

# QUESTION 8

Marks

(a)	Bank reconciliation statement as at 31 December 2022			
		\$	\$	
	Balance as per bank statement		422 300	0.5
	Add: (iii) Uncredited deposits	17 600		0.5
	(iv) Bank mistakenly debited management fee	<u>2 500</u>	<u>20 100</u>	1
			442 400	
	Less: (iii) Unpresented cheques		<u>38 100</u>	0.5
	Updated balance as per bank account		<u>404 300</u>	0.5
				(3)

(b)(1)		Trade receivables			
	2022	\$	2022	\$	
0.5	Balance b/d	360 000	Bank (\$930 000 + \$17 600)	947 600	0.5
0.5	Allowance for doubtful accounts	4 000	Allowance for doubtful accounts	8 800	0.5
	Sales – credit sales (balancing)	<b>927 400</b>	Returns inwards	26 000	0.5
			Balance c/d	<u>309 000</u>	0.5
		<u>1 291 400</u>		<u>1 291 400</u>	(3)

(b)(2)		Allowance for doubtful accounts		
	2022	\$	2022	\$
0.5	Trade receivables	8 800	Balance b/d	10 800
1	Balance c/d ( $\$309\,000 \times 3\%$ )	9 270	Trade receivables	4 000
			Bad debts expenses (Balancing figure)	<u>3 270</u>
		<u>18 070</u>		<u>18 070</u>
				(2)

(b)(3)

Mr Wong

Income statement for the year ended 31 December 2022

	\$	\$	
Sales – Cash ( $\$350\,000 + \$11\,000 \times 12$ )	482 000		1
– Credit	<u>927 400</u>	1 409 400	0.5
Less: Returns inwards		<u>26 000</u>	0.5
		1 383 400	
<u>Less: Cost of goods sold</u>			
Opening inventory	238 000		0.5
Add: Purchases (Working 1)	<u>845 300</u>		1.5
	1 083 300		
Less: Closing inventory	65 000		0.5
Inventory destroyed (balancing figure)	<u>151 800</u>		0.5
		<u>866 500</u>	
Gross profit [ $(\$1\,383\,400 - \$5\,000) \times \frac{6}{16}$ ]		516 900	1.5
<u>Add: Other income</u>			
Discounts received		<u>1 500</u>	0.5
		518 400	
<u>Less: Expenses</u>			
Administrative expenses ( $\$247\,500 - \$2\,500$ )	245 000		1
Depreciation expenses – equipment			
$[(\$830\,000 - \$298\,800 + \$180\,000) \times 20\%]$	142 240		1
Bad debts expenses	<u>3 270</u>		1.5
Inventory loss ( $\$151\,800 \times 20\%$ )	<u>30 360</u>	<u>420 870</u>	1
Net profit		<u>97 530</u>	0.5
			(12)

**QUESTION 8 (con't)**

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

(b)(1)		Trade receivables		Marks
	2022	\$	2022	\$
0.5	Balance b/d	360 000	Bank (\$930 000 + \$17 600)	947 600
0.5	Bad debts recovered	4 000	Bad debts expenses	8 800
	Sales – credit sale (balancing)	927 400	Returns inwards	26 000
		<u>1 291 400</u>	Balance c/d	309 000
				<u>1 291 400</u>

(3)

(b)(2)		Allowance for doubtful accounts		Marks
	2022	\$	2022	\$
1	Profit and loss	1 530	Balance b/d	10 800
1	Balance c/d (\$309 000 × 3%)	9 270		
		<u>10 800</u>		<u>10 800</u>

(2)

(b)(3)		Mr Wong		
		Income statement for the year ended 31 December 2022		
		\$	\$	
Sales – Cash (\$350 000 + \$11 000 × 12)		482 000		1
– Credit		<u>927 400</u>	1 409 400	0.5
Less: Returns inwards			<u>26 000</u>	0.5
			1 383 400	
<u>Less: Cost of goods sold</u>				
Opening inventory		238 000		0.5
Add: Purchases (Working 1)		<u>845 300</u>		1.5
		1 083 300		
Less: Closing inventory		65 000		0.5
Inventory destroyed (balancing figure)		<u>151 800</u>		0.5
			<u>866 500</u>	
Gross profit [(\$1 383 400 - \$5 000) × $\frac{6}{16}$ ]			516 900	1.5
<u>Add: Other income</u>				
Discounts received		1 500		0.5
Allowance for doubtful accounts (reduction)		<u>1 530</u>		0.5
Bad debts recovered		4 000	<u>7 030</u>	0.5
			523 930	
<u>Less: Expenses</u>				
Administrative expenses (\$247 500 - \$2 500)		245 000		1
Depreciation expenses – equipment				
[((\$830 000 - \$298 800 + \$180 000) × 20%]		142 240		1
Bad debts expenses		8 800		0.5
Inventory loss (\$151 800 × 20%)		<u>30 360</u>	<u>426 400</u>	1
Net profit			<u>97 530</u>	0.5

(12)

Working 1:		Trade payables		
	2022	\$	2022	\$
0.5	Bank (\$810 700 + \$38 100)	848 800	Balance b/d	250 000
0.5	Discounts received	1 500	Purchases (balancing figure)	845 300
	Balance c/d	<u>245 000</u>		
		1 095 300		<u>1 095 300</u>

20 marks

**End of Paper 2A**