

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

8:30 am – 9:45 am (1 hour 15 minutes)

This paper must be answered in English

GENERAL INSTRUCTIONS

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

INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)

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

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

SECTION A (60 marks)

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

1. In which ways does the business sector contribute to the Hong Kong economy?
 - (1) It earns foreign exchange by selling goods and services abroad.
 - (2) It provides employment opportunities to local people.
 - (3) It generates tax revenue for the government.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2. Compared with a firm of a flat structure of similar size, which of the following statements about a firm of a tall structure are correct?
 - (1) There are more middle managers.
 - (2) It is able to respond quicker to market changes.
 - (3) Managers supervise fewer immediate subordinates.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

3. Which of the following are uses of financial statements?
 - (1) for tax assessment
 - (2) for analysing the financial information of a firm
 - (3) for comparing the financial performance across different firms in the industry
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

4. Which of the following is the right of self-employed persons under the Mandatory Provident Fund (MPF) System?
 - A. They can opt out of the MPF scheme if their monthly relevant income is below \$7 100.
 - B. They can withdraw part of the accrued benefits from the MPF scheme annually.
 - C. They can change the investment portfolio of their MPF account.
 - D. They can choose to make contributions to the MPF quarterly.

5. Which of the following is an external user of financial statements who focuses on both the profitability and liquidity of a firm?
 - A. senior management
 - B. customer
 - C. supplier
 - D. the government

6. Johnny has just graduated. He joined the creative team of an advertising company. His supervisor gives him basic work instructions only. Johnny can make the final decisions about the details of the advertising campaigns.

Based on the above information, the supervisor of Johnny is adopting the _____ style of leadership and _____.

- A. democratic Johnny has higher level of job satisfaction
B. democratic there is lack of cooperation among team members
C. laissez-faire Johnny will become passive at work
D. laissez-faire Johnny may feel frustrated when facing challenges
7. Which of the following statements about a trial balance is/are correct?
- (1) It is prepared before period-end adjustments.
(2) The net profit figure will be wrong if the trial balance disagrees.
(3) If the balance carried down is shown on the debit side of a ledger account, that account balance will be shown in the debit column of the trial balance.
- A. (1) only
B. (2) only
C. (1) and (3) only
D. (2) and (3) only
8. To maintain a good personal credit record, a credit card user should _____.
- (1) use the full credit limit of his/her credit card
(2) assess his/her repayment ability before using a credit card
(3) settle the credit card outstanding amount on or before the payment due date
- A. (1) only
B. (2) only
C. (2) and (3) only
D. (1), (2) and (3)
9. Which of the following is/are benefit(s) for the Hong Kong economy brought about by globalisation?
- (1) It facilitates the expansion into international markets.
(2) It increases the profits made by businesses in Hong Kong.
(3) It enables cost reduction through global sourcing.
- A. (1) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
10. The balances of all accounts of a firm as at 1 January 2023 are shown as follows:
- | | |
|-------------------|---------|
| | \$ |
| Equipment | 600 000 |
| Inventory | 98 000 |
| Trade payables | 82 000 |
| Bank | 78 000 |
| Trade receivables | 25 000 |
| Capital | ? |
- The firm had a net loss of \$54 000 for the year ended 31 December 2023. During the year, the owner introduced \$100 000 into the firm. The firm's capital account balance as at 31 December 2023 is _____.
- A. \$765 000
B. \$873 000
C. \$879 000
D. \$929 000

11. A firm assigns a group of newly-recruited staff to different departments. Which of the following management functions does the task belong to?
- planning
 - organising
 - leading
 - controlling
12. Which of the following should be recorded in the drawings account of a firm?
- The owner used the firm's credit card to pay for the lunch with his/her friends.
 - The owner made a donation to a charity in his/her name, and instructed the accounts clerk to pay with a firm's cheque.
 - The owner took goods from the firm for personal use.
- (1) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)
13. Which of the following statements about the Asia-Pacific Economic Cooperation are correct?
- It provides financial assistance to developing countries for economic growth.
 - It aims to create greater prosperity among countries in the Asia-Pacific region.
 - Its decisions are undertaken by members on a voluntary basis.
- (1) and (2) only
 - (1) and (3) only
 - (2) and (3) only
 - (1), (2) and (3)
14. Which of the following statements about a personal instalment loan is/are correct?
- There is a fixed repayment schedule.
 - The interest rate fluctuates over the loan period.
 - The interest rate is usually lower than that of a bank overdraft.
- (1) only
 - (2) only
 - (1) and (3) only
 - (2) and (3) only
15. The trade payables account of a firm from 1st to 19th March 2024 is shown below:

Trade payables					
2024		\$	2024		\$
Mar 5	Returns outwards	14 000	Mar 1	Balance b/d	49 000
			Mar 12	Purchases	58 000
			Mar 19	Purchases	32 000

On 23 March 2024, the firm repaid half of the outstanding amount owed to the suppliers. The balance of the trade payables account of the firm as at 31 March 2024 is _____.

- \$62 500
- \$69 500
- \$76 500
- \$78 500

16. The following table compares the basic requirements for new applicants to be listed on the two platforms of the Stock Exchange of Hong Kong:

	<u>Platform A</u>	<u>Platform B</u>
Trading record	longer period	shorter period
Market capitalisation	higher	lower

Which of the following statements is correct?

- A. Companies listed on Platform A distribute dividend to shareholders every year.
- B. More companies are listed on Platform A than Platform B.
- C. Platform A targets multinational corporations while Platform B targets small and medium enterprises.
- D. Inexperienced investors should only invest in stocks listed on Platform B.
17. 'Division of work' enhances the production efficiency of a factory because _____.
- A. it saves time by not having the staff to switch from task to task
- B. it leads to a higher level of inter-dependency between different tasks
- C. it helps reduce delays in the production process
- D. the staff morale will improve
18. The account balances of a firm as at 1 March 2024 are as follows: Capital \$97 000, Cash \$50 000, Bank \$60 000, Trade receivables \$45 000, Bank loan \$28 000 and Trade payables \$45 000.
- In March 2024, the owner introduced \$30 000 cash into the firm. The bank loan was settled by cheque and the firm paid an electricity expense of \$1 000 by bank autopay.
- What is the balance of the bank account of the firm as at 31 March 2024?
- A. \$14 000
- B. \$31 000
- C. \$44 000
- D. \$61 000
19. A foreign fast-food chain plans to establish branches in Hong Kong. Which of the following is/are economic factor(s) that might affect this chain?
- (1) the price level of Hong Kong
- (2) the structure of the labour force in Hong Kong
- (3) the operation of the Hong Kong-Zhuhai-Macao Bridge
- A. (1) only
- B. (1) and (2) only
- C. (1) and (3) only
- D. (2) and (3) only
20. If the Hang Seng Index (HSI) of the last trading day of a year is lower than that of the first trading day of the year, it means that _____ in the year.
- (1) the number of HSI constituent stocks decreased
- (2) the general price level of the HSI constituent stocks dropped
- (3) the capital amount raised by newly listed companies in the Hong Kong stock market decreased
- A. (1) only
- B. (2) only
- C. (1) and (3) only
- D. (2) and (3) only

21. The financial information of Susan's firm for the year ended 31 December is as follows:

	<u>2022</u>	<u>2023</u>
Gross profit ratio	39%	51%
Net profit ratio	20%	22%
Return on capital employed	8%	10%

Which of the following comments on Susan's firm in 2023 as compared with 2022 is correct?

- A. It had a higher sales amount.
 B. It earned a higher gross profit.
 C. It had better control over operating expenses.
 D. It was more efficient in using capital to generate profits.
22. Bright Laundry is a self-laundry chain which operates in the form of franchise. Lisa is considering joining Bright Laundry as a franchisee. Which of the following would be the benefit(s) for Lisa of joining Bright Laundry?

- (1) has greater control over her laundry business
 (2) easier to enter the laundry market
 (3) enable a steady supply of materials

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

23. Which of the following double entries of a stationery shop is/are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Received interest on a term deposit.	Bank	Interest income
(2)	Acquired a motor van on credit.	Accounts payable	Motor vans
(3)	Bought a large quantity of stationery and received a discount from the supplier.	Purchases	Discounts received

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

24. A company has different functional departments, including the finance department, the information management department, the risk management department and the operations department. Which of the following tasks is/are performed by the finance department of the company?

- (1) sourcing funds for installing a database server
 (2) claiming compensation from the insurance company
 (3) estimating cash flows brought by the acquisition of a new machine

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

25. Which of the following two-year investment projects has the highest effective rate of return?

	<u>Annual interest rate</u>	<u>Compounding frequency</u>
A.	8%	once per two years
B.	8%	annually
C.	9%	semi-annually
D.	9%	quarterly

26. Which of the following is/are the difference(s) between a public limited company and a public corporation?

	<u>Public limited company</u>	<u>Public corporation</u>
(1) Owner	less than 50 shareholders	the government
(2) Member of board of directors	appointed by shareholders	appointed by the government
(3) Objective	maximise shareholders' wealth	maximise government's wealth

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

27. A manufacturing firm had a significant change in the nature of its operations. It thus changed the valuation method for its non-current assets.

The above change in the valuation method _____ the consistency principle because _____.

- A. did not violate it could reflect a more accurate value of the non-current assets
- B. did not violate the non-current assets were still valued on an accrual basis
- C. violated the valuation method cannot be changed once adopted
- D. violated the firm must use the same valuation method for all non-current assets

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

- (1) They are receptive to innovative ideas.
- (2) They are willing to take risks.
- (3) They operate a firm in the form of sole proprietorship.
- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

29. On 1 January 2024, Raymond deposited \$200 000 into an 18-month term deposit plan. The deposit interest rate is 5% per annum, compounded semi-annually.

The total amount that he will receive when the term deposit matures is _____.

- A. 215 000
- B. 215 250
- C. 215 378
- D. 231 525

30. Which of the following are nominal accounts?

- (1) discounts received account
- (2) rent account
- (3) carriage outwards account
- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

END OF SECTION A

SECTION B (30 marks)

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

1. Mr Lee runs a household appliances shop in Hong Kong in the form of sole proprietorship. It is a small and medium enterprise (SME).

The following account balances as at 31 December 2023 were extracted from the books of the firm:

	\$
Discounts allowed	14 000
Carriage inwards	35 000
Drawings	12 000
Inventory as at 1 January 2023	65 000
Purchases	604 000
Sales	880 000
Sundry expenses	56 800

The inventory as at 31 December 2023 was valued at \$90 000.

- (a) Apart from the number of employees, state two characteristics of Mr Lee's firm as an SME. (2 marks)
- (b) Prepare an income statement for the year ended 31 December 2023. (4 marks)
2. Ada and Billy are partners of a firm that manufactures and sells furniture. Billy is a limited partner. Recently, they invited their friend, Carol, to join the firm as a nominal partner. Carol is an experienced and well-known interior designer.

In a meeting, Ada presented a research report which stated that the paint used in some furniture produced by the firm contains an excessive amount of a chemical which may be harmful to people's health.

- (a) State the similarity between Billy and Carol in their role as a partner in managing the firm. (1 mark)
- (b) Apart from enhancing the reputation of the firm, explain one contribution that Carol could make to the firm. (2 marks)
- (c) The firm decides to sell the above-mentioned furniture without stating that the paint used may be harmful to health. The customers may take some actions against the firm.

Explain two possible adverse impacts on the firm resulting from the customers' actions. (4 marks)

3. The following is an advertisement of a bank:

US-China Trade Conflict! Stock Market Crash!

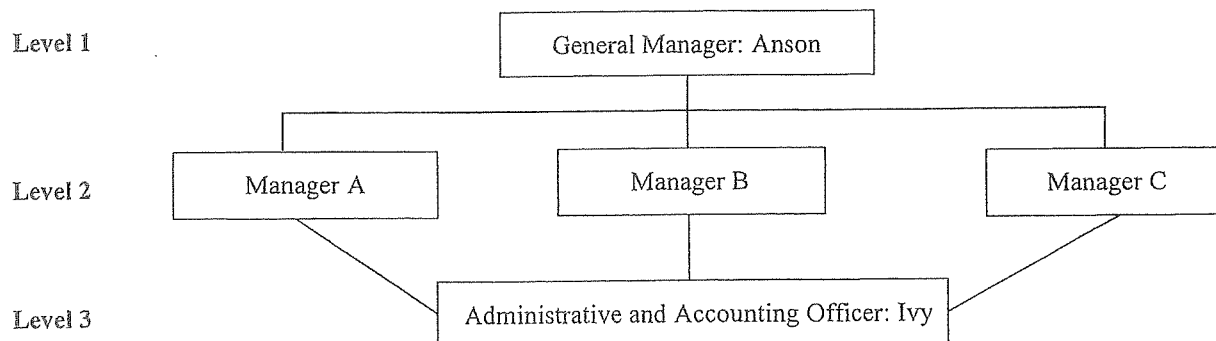
Term Deposits are Safer

Annual Return Rate	Deposit Period	Minimum Deposit
5.45%	12 months	\$100 000

- (a) Explain one difference between investing in term deposits and ordinary shares in terms of each of the following:
- (i) return on investment
 - (ii) maturity date (4 marks)
- (b) Ignoring other factors, explain how the share price of a computer chip re-exporter in Hong Kong may be affected if the United States imposes restrictions on computer chips exported to the Mainland. (3 marks)

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

4. Anson is the General Manager of a trading firm which sells car batteries in Hong Kong, Macao and the Mainland. Under Anson, there are three departments headed by Managers A, B and C, who are responsible for the business of the three regions respectively. The organisation chart of the firm is as follows:



- (a) Identify the form of departmentalisation adopted by the firm at Level 2. (1 mark)
- (b) With reference to the above organisation chart,
- (i) state the principle of effective management that has been violated. Explain why. (2 marks)
- (ii) explain one problem that may result from the violation of the principle in (b)(i). (2 marks)
- (c) The following is a conversation between Anson and Ivy:

Anson: Ivy, we need to update the value of the delivery vans in the financial statements from time to time as their market value changes over time.

Ivy: Sorry, we have to follow certain accounting principles and concepts when recording the value of the non-current assets.

Explain an accounting principle or concept that Ivy should follow when recording the value of the delivery vans in the books. (3 marks)

- (d) On 1 January 2024, the bank account of the firm had an overdraft balance of \$32 000. The next day, a customer returned some malfunctioning batteries. A refund of \$9 000 was made to the customer by cheque. On 4 January 2024, Mr Chan, a credit customer purchased car batteries with a list price of \$50 000, receiving a trade discount of 10%. On 22 January 2024, Mr Chan settled the outstanding amount by cheque.

Prepare the bank account of the firm to record the above transactions and balance off the account as at 31 January 2024. (2 marks)

(Total: 10 marks)

5. Sing Kee is a chain store which sells frozen food. The account balances as at 31 December 2023 are extracted as follows:

	\$
Inventory	185 000
Bank	(28 000)
Cash	190 000
Trade payables	65 000
Rental deposit (to be fully refunded to Sing Kee on 31 May 2024)	10 000

- (a) Calculate (to two decimal places) the following ratios for 2023 for Sing Kee:
- (i) current ratio
 - (ii) quick ratio (2 marks)

The current ratio and the quick ratio of Sing Kee for 2022 were 3.45:1 and 1.15:1 respectively.

- (b) Comment on the liquidity of Sing Kee for 2023. (3 marks)

The following is a conversation between the owner of Sing Kee, Kenny, and his consultant, Ian.

Kenny:	To improve the chain's performance, I plan to set a sales goal for the whole chain.
Ian:	You can involve the chain's managers and their subordinates to set the sales goal together. It will also improve the communication in your firm.
Kenny:	Are there any disadvantages of doing so?

- (c) (i) Identify the principle of effective management adopted in Ian's proposal. (1 mark)
- (ii) From the chain's point of view, explain why the application of the principle of effective management in (c)(i) would improve the communication in Sing Kee. (2 marks)
- (iii) Explain one disadvantage for Sing Kee of adopting the principle of effective management in (c)(i). (2 marks)
- (Total: 10 marks)

END OF PAPER

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A
Accounting Module

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

This paper must be answered in English

INSTRUCTIONS

- (1) There are three sections in this paper.
- (2) All questions in Section A are compulsory. You are required to **answer two of the three questions in Section B** and one of the two questions in Section C.
- (3) Write your answers in the answer book. Start **EACH** question (not part of a question) on a **NEW** page.

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

SECTION A (24 marks, weighting 30%)

Answer **ALL** questions in this section.

1. The financial year of a gift shop ends on 31 December. The shop manager found the following errors in the recording of the transactions made in 2023:
- (i) A credit sale of \$6 900 was wrongly recorded as \$6 600.
 - (ii) The shop bought a display cabinet for \$20 000 by cheque, but it was wrongly recorded as sundry expenses.
 - (iii) Travelling expenses of \$850 was mistakenly entered in the electricity expenses account.
 - (iv) The shop signed a one-year tenancy agreement to sublet part of its warehouse starting from 1 November 2023. The monthly rent was \$10 000. The tenant paid 12 months' rent by cheque on 31 December 2023. No entries for the above were made in the books.

REQUIRED:

- (a) Identify the type of accounting error for each of the transactions (i) to (iv) above. The following are some types of accounting errors:
- | | |
|---|---------------------------|
| ● compensating errors | ● error of omission |
| ● error of complete reversal of entries | ● error of original entry |
| ● error of commission | ● error of principle |
- (4 marks)
- (b) Prepare the journal entries for transaction (iv) above. Narrations are not required. (2 marks)
- (c) The salespeople of the gift shop are entitled to 5% commission basing on the sales amount. Sales for the year 2023 were \$500 000 and commission of \$25 000 was recorded in the income statement for the year ended 31 December 2023.

State the most relevant accounting principle or concept, and explain how it is applied to the recording of the commission above. (2 marks)

(Total: 8 marks)

2. On 1 January 2022, Tracy Company acquired office premises at \$9 000 000 and made the following related expenditures:

	\$
Renovation cost	700 000
Agency fee	18 000
Management fee deposit	10 000
Annual fire insurance	8 700
Legal fee	20 000
Removal cost of old fixtures in the premises	35 000

REQUIRED:

- (a) Prepare a statement to calculate the cost to be capitalised for the office premises. (4 marks)

On 1 April 2022, Tracy Company acquired a van at a cost of \$120 000, with an expected residual value of \$15 000. It is the company's policy to charge depreciation of 20% annually on vans using the reducing-balance method. The financial year of the company ends on 31 December.

On 1 September 2023, the company sold the van for \$60 000. The buyer would settle the amount on 5 January 2024.

REQUIRED:

- (b) Prepare the journal entries on 1 September 2023 to record the depreciation expense and the disposal of the van. Narrations are not required. (4 marks)

(Total: 8 marks)

3. Nice Company manufactures and sells a single product which is sold at a unit price of \$100. It maintains a variable cost to sales ratio of 70%. The company does not keep inventory of the product.

Budgeted information for May 2024 is extracted below:

Sales:	\$1 200 000	
Production overheads:	\$5 per unit	
Salary of factory supervisors:	<u>Production quantity (unit)</u>	<u>Monthly salary</u>
	0 to 7 000	\$100 000
	7 001 to 14 000	\$120 000
	14 001 to 21 000	\$140 000
Factory rent:	\$150 000 per month	
Administrative expenses:	<u>Sales quantity (unit)</u>	<u>Monthly expenses</u>
	7 000	\$36 240
	14 000	\$53 740
	21 000	\$78 240

REQUIRED:

- (a) With reference to the above information, classify each of the following cost items (1) to (4) into fixed cost, variable cost, mixed cost or step cost:
- (1) Production overheads
 - (2) Salary of factory supervisors
 - (3) Factory rent
 - (4) Administrative expenses
- (2 marks)
- (b) Use the high-low method to calculate the variable component and the fixed component of the administrative expenses. (2 marks)
- (c) Calculate the breakeven sales amount for May 2024. (2 marks)
- (d) Calculate the margin of safety (in unit) for May 2024. (2 marks)
- (Total: 8 marks)

SECTION B (24 marks, weighting 45%)

Answer **TWO** questions in this section.

4. Macy operates a shop which sells computer accessories. The balances extracted from the cash book as at 1 March 2024 are: cash \$28 000 and bank overdraft \$8 500. The shop made the following transactions in March 2024:

March

- 1 Sold eight scanners at \$700 each to Mr Chan for cash.
- 3 A cheque of \$4 000 issued to a supplier on 2 September 2023 became stale and was cancelled.
- 4 Sold computer accessories for \$75 000 to Ocean Limited on credit.
- 5 Purchased 100 wireless keyboards at \$50 each from Kenny Company on credit. Kenny Company offers a cash discount of 5% if Macy repays the amount within 15 days.
- 7 Ordered a motor vehicle for \$50 000. A deposit of 40% was paid by cheque #544101.
- 17 Issued a cheque #544102 to settle all the debts owing to Kenny Company. The balance of Kenny Company account on 1 March 2024 was \$2 500.
- 25 Ocean Limited settled the amount owing for the sales made on 4 March by cheque, with a 4% cash discount.
- 30 Macy withdrew cash from the cash box to pay for the rent of her flat. After her withdrawal, there was \$7 000 left in the cash box.
- 31 A cheque #544103 dated 3 April 2024 was issued to settle the outstanding amount for the purchase of the motor vehicle.

REQUIRED:

- (a) Prepare a three-column cash book for March 2024. (5 marks)

On 2 April 2024, Macy received the following bank statement:

2024	Description	Withdrawal (\$)	Deposit (\$)	Balance (\$)
March	1 Balance b/d			4 500 (Dr.)
	1 Overdraft interest	45		4 545 (Dr.)
	1 Refer to drawer	1 500		6 045 (Dr.)
	5 Bank transfer		25 000	18 955
	8 Cheque - 544101	20 000		1 045 (Dr.)
	15 Direct debit - Internet fee	420		1 465 (Dr.)
	26 Cheque deposit		72 000	70 535
	30 Salary		8 000	78 535

Additional information:

- (i) The difference in the opening balances of the bank statement and the bank account was due to the cheque \$4 000 issued on 2 September 2023.
- (ii) The bank transfer on 5 March 2024 was from a customer.
- (iii) The bank wrongly credited the salary of another client to the business bank account of Macy. The bank subsequently made the correction in early April.

REQUIRED:

- (b) Update the bank column of the cash book, commencing with the closing balance in (a). (3 marks)
- (c) Prepare a bank reconciliation statement as at 31 March 2024, commencing with the updated balance as per cash book. (3 marks)
- (d) What is a stale cheque? (1 mark)

(Total: 12 marks)

5. Betty Limited started its operations on 1 January 2022. On 7 January 2024, there was a flood in the office which damaged many accounting records. The accounts clerk drafted the statement of financial position as at 31 December 2023 as below. However, she could not find out the amounts for some of the items.

Betty Limited Statement of financial position as at 31 December 2023		
Assets	\$	\$
<u>Non-current assets</u>		
Furniture, net		?
<u>Current assets</u>		
Inventory	166 500	
Trade receivables	?	
Bank	?	?
Total assets		<u>?</u>
Equity and liabilities		
<u>Equity</u>		
Ordinary share capital (507 500 shares issued)		?
Retained profits		<u>543 750</u>
		?
<u>Non-current liabilities</u>		
3% bank loan		<u>500 000</u>
		?
<u>Current liabilities</u>		
Trade payables	?	
Interest payable	?	?
Total equity and liabilities		<u>?</u>

Before the flood, the accounts clerk calculated some accounting ratios and confirmed some information. Details are shown below:

- (i) All furniture was acquired on 1 January 2022. It is the company's policy to depreciate its non-current assets over five years using the straight-line method. On 31 December 2023, the accumulated depreciation of the furniture was \$1 167 000.
- (ii) Total sales for 2023 amounted to \$2 700 000, of which 80% were credit sales. The trade receivables account balance as at 1 January 2023 was \$360 000. Trade receivables turnover for 2023 was 8 times.
- (iii) The total assets turnover for 2023 was 1.2 times.
- (iv) The 3% bank loan was obtained on 1 April 2023. Interest is payable half-yearly on 31 March and 30 September.
- (v) The shareholders' fund on 1 January 2023 was \$921 250, while the net profit for the year ended 31 December 2023 was \$361 250. The return on capital employed for 2023 was 25%.

REQUIRED:

- (a) Use the format given above, prepare the statement of financial position as at 31 December 2023 for Betty Limited. (6 marks)
 - (b) Calculate (to two decimal places) the following ratios for 2023:
 - (1) earnings per share
 - (2) gearing ratio (4 marks)
 - (c) Betty Limited is planning to issue preference shares. What will be the effect on its gearing ratio? State the main difference between preference shares and ordinary shares in terms of dividend rate. (2 marks)
- (Total: 12 marks)

6. Joey Company commenced business to manufacture a single product, Product Y, on 1 January 2023. The following information for the year 2023 is available:

- (i) Actual production cost per unit of Product Y:

	\$
Direct material cost	5.3
Direct labour cost (\$45 per direct labour hour)	13.5
Variable production overheads	6
Fixed production overheads	?

- (ii) The predetermined fixed production overhead absorption rate was \$5 per direct labour hour. Actual fixed production overheads for 2023 were the same as the budgeted amount.
- (iii) The budgeted and actual production quantity were 45 000 units and 47 000 units respectively.
- (iv) The budgeted and actual sales quantity were the same.
- (v) The contribution margin ratio was 35%.
- (vi) The closing inventory was 3 500 units.
- (vii) Actual selling expenses for 2023 were \$138 750. This was the same as budgeted. The variable component of the selling expenses was \$2.5 per unit, which varied with the sales level.

REQUIRED:

- (a) Prepare the income statement for the year ended 31 December 2023 using the marginal costing system. (6 marks)
- (b) If the absorption costing system is used instead, explain how the net profit of 2023 will be affected with supporting calculation. (2 marks)

Joey Company used only 80% of the production capacity in 2023. In April 2024, the company received a one-time order from a customer to sell 20 000 units of Product Y at \$41 each. The company is required to pay \$5 000 for delivery of goods to the customer, but no variable selling expenses will be paid.

In 2024, the unit selling price of Product Y is \$48 and the unit variable costs are the same as 2023. The projected annual demand from the existing customers is 50 000 units. If Joey Company accepts this one-time order, it has to give up some of the orders from the existing customers due to insufficient production capacity.

REQUIRED:

- (c) With supporting calculations, explain whether Joey Company should accept this one-time order. (4 marks)

(Total: 12 marks)

SECTION C (20 marks, weighting 25%)

Answer **ONE** question in this section.

7. Ann and Ben were in partnership, sharing profits and losses in the ratio of 2:1. The trial balance as at 31 March 2023 is as follows:

	Dr \$	Cr \$
Capital accounts:		
– Ann		200 000
– Ben		100 000
Current accounts:		
– Ann	650	
– Ben		22 355
Office equipment, net	120 000	
Furniture, net	30 000	
Inventory	20 500	
Trade receivables	10 800	
Trade payables		3 000
Prepaid operating expenses	5 400	
Bank	<u>138 005</u>	<u>325 355</u>
	<u>325 355</u>	<u>325 355</u>

Additional information:

After preparing the trial balance, it was found that the electricity expenses of \$1 200 for March 2023 had not yet been paid and recorded in the books.

On 1 April 2023, Ann retired and Alvin was admitted to the partnership with the following arrangements:

- (i) Ben and Alvin would share profits and losses equally.
- (ii) Office equipment was to be revalued to \$111 000.
- (iii) Inventory costing \$3 900 was obsolete and could only be sold for \$2 600 after paying a selling expense of \$200.
- (iv) The partnership confirmed that there would be a bad debt recovery of \$3 000 in early May 2023.
- (v) Goodwill was to be valued at \$60 000. No goodwill account would be kept in the books. Adjustments for goodwill between partners would be made in the capital accounts directly.
- (vi) Alvin brought in a piece of furniture valued at \$25 000, together with funds by cheque so as to maintain a balance of \$100 000 in his capital account.
- (vii) The amount owing to Ann would be retained as a two-year 4% loan to the new partnership.
- (viii) Ben withdrew \$8 000 from the partnership's bank account to purchase a gift for Ann in his own name.

REQUIRED:

- (a) Prepare the revaluation account. (2 marks)
- (b) Prepare the partners' capital accounts in columnar form, showing necessary adjustments for the retirement of Ann and the admission of Alvin. (4 marks)
- (c) Give one reason why goodwill adjustments should be made when Ann retired. (2 marks)

During the year ended 31 March 2024, the partnership made a gross profit of \$180 000. Operating expenses of \$98 500 were paid by cheque. Depreciation was to be provided on non-current assets at 20% per annum using the reducing-balance method.

The following account balances were extracted from the books as at 31 March 2024:

	\$
Inventory	20 805
Trade receivables	25 000
Trade payables	17 000

On 31 March 2024, Ben and Alvin decided to dissolve the partnership. The relevant information is as follows:

- (i) Ben took over the furniture at 90% of the net book value.
- (ii) Ann took over the office equipment as a settlement of half of the loan owed to her by the partnership. The remaining loan amount and accrued loan interest were settled by cheque.
- (iii) Ben appointed a debt collection agency for the partnership to collect all the debts from trade receivables. The agency charges a commission of 4% based on the amount collected. Apart from a debt of \$2 000 which was uncollectible, all other debts were settled. The agency deposited the net amount into the bank account of the partnership.
- (iv) The trade payables were settled by cheque and a 5% discount was received.
- (v) All the inventory was sold at a mark-up of 20%.
- (vi) Alvin agreed to personally bear the realisation expenses of \$2 400 for the partnership.

REQUIRED:

Prepare for the partnership:

- (d) the income statement for the year ended 31 March 2024 (starting from the gross profit) (3 marks)
- (e) the realisation account (6 marks)
- (f) the partners' capital accounts in columnar form, showing the necessary adjustments for the dissolution (3 marks)

(Total: 20 marks)

8. Mable Limited prepared the closing entries and then drafted the trial balance as at 31 December 2023 as follows:

	Dr \$	Cr \$
Retained profits, 31 December 2023		680 000
Ordinary share capital		2 000 000
General reserve		125 000
Trade payables		158 000
Bank	945 600	
Equipment	2 076 500	
Accumulated depreciation - equipment		500 000
Trade receivables	240 000	
Inventory [note (ii)]	227 500	
Allowance for doubtful accounts [note (v)]		9 600
Suspense		17 000
	<u>3 489 600</u>	<u>3 489 600</u>

Additional information:

- (i) All sales were made at a gross profit margin of 60%.
- (ii) The annual physical inventory count was postponed and conducted on 4 January 2024. Based on the physical inventory count, the inventory was valued at \$227 500. The accounts clerk recorded this amount as the inventory value as at 31 December 2023.

The following information is related to the period from 1 January to 4 January 2024:

	\$
Total purchases	13 200
Total sales	40 000
Total returns outwards	900

On 2 January 2024, sales of \$10 000 were made to staff at 50% of the normal selling price. Goods costing \$1 500 were sent to a customer on 3 January 2024 on a sale-or-return basis. The customer confirmed that he would accept two-thirds of the goods on 9 January 2024.

- (iii) On 5 December 2023, a credit customer returned goods with a list price of \$17 000 to Mable Limited. The accounts clerk only recorded the transaction in the returns inwards account.
- (iv) Goods costing \$6 500 were found damaged. The damaged goods were scrapped on 15 December 2023. On 31 December 2023, the insurance company agreed to pay 80% of the cost of the damaged goods as compensation. No records were made in the books for the insurance compensation.
- (v) The company provided 4% allowance for doubtful accounts on the amount of trade receivables on 31 December 2023. However, an allowance of 3% should have been made this year as the economy was recovering.
- (vi) On 1 April 2023, a piece of old equipment was traded in for a new model at a trade-in value of \$5 000. The cost of the old equipment was \$30 000 and it was fully depreciated in 2022, but the company still provided a full year depreciation for the equipment in 2023. The company also paid \$45 000 for the new equipment by cheque. However, no entries were made for the above trade-in arrangement.

It is the company's policy to provide depreciation on equipment at an annual rate of 20% using the straight-line method.

- (vii) The company issued 5% debentures of \$1 800 000 on 31 December 2023. However, no entries were made in the books.
- (viii) On 31 December 2023, the board of directors resolved to increase the general reserve to \$247 000. However, no entries were made in the books.

REQUIRED:

- (a) Prepare a statement to calculate the inventory value as at 31 December 2023. (5 marks)
- (b) Prepare the necessary journal entries to correct items (ii) to (viii) above. Narrations are not required. (11 marks)
- (c) Prepare a statement to calculate the working capital as at 31 December 2023. (4 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

- 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.
- 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.
- 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.
- 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 (61%)	16.	B (47%)
2.	B (83%)	17.	A (81%)
3.	D (37%)	18.	B (78%)
4.	C (53%)	19.	A (61%)
5.	C (55%)	20.	B (70%)
6.	D (61%)	21.	D (54%)
7.	A (55%)	22.	D (75%)
8.	C (94%)	23.	A (53%)
9.	B (51%)	24.	C (53%)
10.	A (67%)	25.	D (85%)
11.	B (77%)	26.	B (68%)
12.	D (70%)	27.	A (52%)
13.	C (53%)	28.	A (83%)
14.	C (71%)	29.	C (77%)
15.	A (76%)	30.	D (69%)

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

SECTION B Part 1

QUESTION 1

Marks

- (a) Characteristics: 2
- managed by owner
 - mainly local operations
 - limited capital
- (1 mark for each characteristic, max. 2 marks)

(b)

Mr Lee			
Income statement for the year ended 31 December 2023			
	\$	\$	
Sales		880 000	0.5
<u>Less: Cost of goods sold</u>			
Opening inventory	65 000		0.5
Add: Purchases	604 000		0.5
Add: Carriage inwards	<u>35 000</u>		0.5
	704 000		
Less: Closing inventory	<u>90 000</u>	<u>614 000</u>	0.5
Gross profit		266 000	
<u>Less: Expenses</u>			
Discounts allowed	14 000		0.5
Sundry expenses	<u>56 800</u>	<u>70 800</u>	0.5
Net profit		<u>195 200</u>	0.5
		(4)	
		<u>6 marks</u>	

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

QUESTION 2

Marks

- (a) Similarity: Both Billy and Carol do not take part in the daily operations of the firm 1
- (b) Contributions: 2
- provide professional advice, e.g. furniture design
 - strengthen business linkages, e.g. wider business network in the furniture industry
- (2 marks for each contribution, max. 2 marks)
- (c) Adverse impacts: 4
- customers may refuse to buy the firm's furniture, which will affect its sales
 - customers may claim compensation from the firm, causing financial losses to it
 - customers may spread negative word-of-mouth about the firm, which will affect its reputation
- (2 marks for each adverse impact, max. 4 marks)

7 marks

QUESTION 3

Marks

(a)		Invest in term deposits	Invest in ordinary shares	
	(i) return on investment	— fixed interest rate — no capital gain/loss	— dividend rate is variable and not guaranteed — may have capital gain/loss	2
	(ii) maturity date	has a maturity date, depositors can get back the principal and interest on that date	no maturity date, shareholders can sell the shares any time to get back cash	2
(b)	— there will be a drop in the sales of chips re-exported from Hong Kong to the Mainland, so the profit of the re-exporter will decrease/investors will be pessimistic about the US-China relationship			1
	— investors will sell the shares			1
	— the share price will drop			1
				<u>7 marks</u>

Part 2

QUESTION 4

Marks

(a)	Departmentalisation by location				1
(b)	(i)	–	unity of command is violated	1	
		–	the administrative and accounting officer, Ivy, receives orders from and reports to three superiors at the same time	1	
	(ii)	Problems:			2
		–	contradictory instructions may be given by more than one manager, which may cause confusion for Ivy		
		–	unclear chain of command may cause conflict between the three managers		
		(2 marks for each problem, max. 2 marks)			
(c)	–	historical cost concept should be followed			1
	–	non-current assets should be recorded at their cost of acquisition/purchase			1
	–	subsequent changes in the market value of the delivery vans are to be ignored			1
(d)					

QUESTION 5**Marks**

- (a) (i) Current ratio: 1
- $$= \frac{\$185\,000 + \$190\,000 + \$10\,000}{\$28\,000 + \$65\,000} : 1$$
- $$= 4.14 : 1$$
- (ii) Quick ratio: 1
- $$= \frac{\$190\,000 + \$10\,000}{\$28\,000 + \$65\,000} : 1$$
- $$= 2.15 : 1$$
- (b) Comments:
- higher liquidity: both the current ratio and the quick ratio of 2023 were higher than those for 2022 1
 - the firm had more short-term assets to repay short-term debts 1
 - the difference between the current ratio and the quick ratio was smaller (1.99 vs 2.3) in 2023, indicating that the firm had a lower proportion of capital tied up in inventory 1
- (1 mark for each comment, max. 3 marks)
- (c) (i) Management by objectives 1
- (ii) Reason: 2
- Kenny will have regular meetings with the chain's managers and their subordinates
- to set goals
 - to review the goal achievement progress and the problems encountered
- (iii) Disadvantages: 2
- time-consuming: e.g. more paperwork as many meetings will be arranged
 - heavier workload for Kenny and the managers: e.g. they need to lead and guide the subordinates to set goals and review the progress of the goals
- (2 marks for each disadvantage, max. 2 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) (i) error of original entry	1
(ii) error of principle	1
(iii) error of commission	1
(iv) error of omission	1
	(4)

(b)	General Journal			
		Dr	Cr	
		\$	\$	
2023				
Dec 31	Bank	120 000		0.5
	Rental income		20 000	0.5
	Unearned rental income		100 000	1
				(2)
(c)	— Matching concept			1
	— As the sales were made in 2023, the relevant commission should be recorded in the income statement of 2023 so that the sales revenue is linked with the related expenses.			1
				(2)
				<u>8 marks</u>

QUESTION 2

(a)	Statement to calculate the cost of the office premises			Marks
		\$		
	Purchase price	9 000 000		0.5
	Renovation cost	700 000		0.5
	Agency fee	18 000		0.5
	Legal fee	20 000		0.5
	Removal cost of old fixtures in the premises	35 000		0.5
	Cost of the office premises	<u>9 773 000</u>		1.5
				(4)

(b)	General Journal			
		Dr	Cr	
		\$	\$	
2023				0.5
Sep 1	Depreciation expenses – van $[(\$120\,000 - \$120\,000 \times 20\% \times 9/12)] \times 20\% \times 8/12$	13 600		1
	Accumulated depreciation – van		13 600	0.5
	Accumulated depreciation – van $(\$18\,000 + \$13\,600)$	31 600		0.5
	Other receivables	60 000		0.5
	Loss on disposal	28 400		0.5
	Van		120 000	0.5
				(4)
				<u>8 marks</u>

QUESTION 3

Marks

- (a)
- | | |
|-------------------|-----|
| (1) variable cost | 0.5 |
| (2) step cost | 0.5 |
| (3) fixed cost | 0.5 |
| (4) mixed cost | 0.5 |
- (b) Variable administrative expenses:
- $$= \frac{(\$78\,240 - \$36\,240)}{(21\,000 - 7\,000)}$$
- = \$3 per unit
- Fixed administrative expenses:
- $$= \$36\,240 - (\$3 \times 7\,000) \text{ or } \$78\,240 - (\$3 \times 21\,000)$$
- = \$15 240
- (c) Breakeven sales amount:
- $$= \frac{(\$120\,000 + \$150\,000 + \$15\,240)}{(1 - 70\%)}$$
- = \$950 800
- (d) Margin of safety:
- $$= 12\,000 - (\$950\,800 \div \$100)$$
- = 2 492 units

8 marks

QUESTION 4

(a)

(b)

(c)

(d) Stale cheque: a cheque that has not been presented for payment within six months after the issue date. (1)

37

QUESTION 5

Marks

Betty Limited
Statement of financial position as at 31 December 2023

Assets	\$	\$	
<u>Non-current assets</u>			
Furniture, net (\$1 167 000/2 x 3)		1 750 500	1
<u>Current assets</u>			
Inventory	166 500		
Trade receivables [(\$2 700 000 x 0.8)/8 x 2 - \$360 000]	180 000		1
Bank	153 000	499 500	0.5
Total assets (\$2 700 000/1.2)		<u>2 250 000</u>	1
<u>Equity and liabilities</u>			
<u>Equity</u>			
Ordinary share capital (507 500 shares issued) (W1)		1 015 000	1.5
Retained profits		543 750	
		<u>1 558 750</u>	
<u>Non-current liabilities</u>			
3% bank loan		500 000	
		<u>2 058 750</u>	
<u>Current liabilities</u>			
Trade payables	187 500		0.5
Interest payable (\$500 000 x 3% x 3/12)	3 750	191 250	0.5
Total equity and liabilities		<u>2 250 000</u>	(6)

$$(W1) \quad \frac{\$361\,250 + (\$500\,000 \times 3\% \times 9/12)}{(\text{Ordinary share capital} + \$543\,750 + \$500\,000 + \$921\,250)/2} = 0.25$$

Ordinary share capital = \$1 015 000

$$(b) \quad (1) \quad \text{Earnings per share} = \frac{\$361\,250}{507\,500} = 71.18 \text{ cents or } \$0.71 \quad 2$$

$$(2) \quad \text{Gearing ratio} = \frac{\$500\,000}{\$2\,058\,750} \times 100\% = 24.29\% \quad 2$$

(4)

- (c) — The gearing ratio will increase. 1
 — The dividend rate of preference shares is fixed while that of ordinary shares varies. 1
(2)

12 marks

QUESTION 6

Marks

(a)

Joey Company			
Income statement for the year ended 31 December 2023			
	\$	\$	
Sales \$1 187 550/(1 - 0.35)		1 827 000	1
<u>Less: Variable costs</u>			
Direct material cost (\$5.3 x 43 500)	230 550		0.5
Direct labour cost (\$13.5 x 43 500)	587 250		0.5
Variable production overheads (\$6 x 43 500)	<u>261 000</u>		0.5
Variable production cost (\$5.3 + \$13.5 + \$6) x (47 000 - 3 500)	1 078 800		
Variable selling expenses [\$2.5 x (47 000 - 3 500)]	<u>108 750</u>	<u>1 187 550</u>	0.5
Contribution margin		639 450	0.5
<u>Less: Fixed costs</u>			
Fixed production overheads (\$5 x \$13.5/45 x 45 000)	67 500		1
Fixed selling expenses [\$138 750 - (\$2.5 x 43 500)]	<u>30 000</u>	<u>97 500</u>	1
Net profit		<u>541 950</u>	0.5
			(6)

- (b) — the net profit under the absorption costing system would be **\$5 250 (3 500 x \$1.5) higher** than that under the marginal costing system 1
- as a portion of the fixed production overheads would be added to the cost of the closing inventory under the absorption costing system 1
- (2)

Statement to calculate the incremental profit/loss of accepting the one-time order			
	\$	\$	
Incremental sales revenue (\$41 x 20 000)		820 000	0.5
<u>Less: Incremental costs</u>			
Variable production costs for the one-time order [(\$5.3 + \$13.5 + \$6) x 20 000]	496 000		0.5
Delivery cost for the one-time order	5 000		0.5
Contribution margin from existing customers forgone (W1)			
[(50 000 - (47 000/0.8 - 20 000)) x \$(48 - 5.3 - 13.5 - 6 - 2.5), (11 250 x \$20.7)]	<u>232 875</u>	<u>733 875</u>	1.5
Incremental profit		<u>86 125</u>	0.5
Joey Company should accept the one-time order as the profit will increase by \$86 125.			0.5
			(4)
		<u>12 marks</u>	

W1:	\$
Sales to existing customers forgone (11 250 x \$48)	540 000
Less: Savings in variable costs [11 250 x (\$5.3 + \$13.5 + \$6 + \$2.5)]	<u>307 125</u>
Contribution margin from existing customers forgone	<u>232 875</u>

SECTION C

QUESTION 7

Marks

(a)

Revaluation				
2023	\$	2023	\$	
Apr 1		Apr 1		
0.5 Office equipment	9 000	Trade receivables	3 000	0.5
1 Inventory [\$3 900 - (\$2 600 - \$200)]	1 500	Capital – Ann (2/3)	5 000	
		Capital – Ben (1/3)	2 500	
	<u>10 500</u>		<u>10 500</u>	(2)

(b)

Capital								
2023	Ann	Ben	Alvin	2023	Ann	Ben	Alvin	
Apr 1	\$	\$	\$	Apr 1	\$	\$	\$	
0.5 Revaluation	5 000	2 500		Balance b/d	200 000	100 000		
0.5 Capital (1:1)		30 000	30 000	Capital (2:1)	40 000	20 000		0.5
0.5 Current[\$650 + (\$1 200 x 2/3)]	1 450			Furniture			25 000	0.5
0.5 Loan from Ann	233 550			Bank			105 000	0.5
0.5 Balance c/d		<u>87 500</u>	<u>100 000</u>					
	<u>240 000</u>	<u>120 000</u>	<u>130 000</u>		<u>240 000</u>	<u>120 000</u>	<u>130 000</u>	(4)

- (c) – The goodwill of the partnership is the result of the efforts of all the existing partners in the past. 1
 – Ann is entitled to get a fair share of the goodwill of the partnership upon her retirement. 1
 (2)

(d)

Ben and Alvin				
Income statement for the year ended 31 March 2024				
		\$	\$	
Gross profit			180 000	
Less: Expenses				
Operating expenses (\$98 500 + \$5 400 - \$1 200)		102 700		1
Depreciation expenses:				
– Office equipment (\$111 000 x 20%)		22 200		0.5
– Furniture (\$30 000 + \$25 000) x 20%		11 000		0.5
Loan interest (\$233 550 x 4%)		<u>9 342</u>	<u>145 242</u>	0.5
Net profit			<u>34 758</u>	
Share of profit:				
– Ben (1/2)			17 379	} 0.5
– Alvin (1/2)			<u>17 379</u>	
			<u>34 758</u>	

(3)

Marks

Realisation

2024		\$	2024		\$
Mar 31			Mar 31		
0.5	Office equipment (\$111 000 x 0.8)	88 800	Capital – Ben (\$44 000 x 0.9)	39 600	0.5
0.5	Furniture (\$55 000 x 0.8)	44 000	Loan from Ann (\$233 550 x 1/2)	116 775	0.5
0.5	Inventory	20 805	Bank–Trade receivables[((\$25 000-\$2 000)x0.96]	22 080	1
0.5	Trade receivables	25 000	Trade payables	850	1
	Ben’s capital	12 833	Bank – inventory (\$20 805 x 1.2)	24 966	1
	Alvin’s capital	12 833			
		<u>204 271</u>		<u>204 271</u>	

(6)

Capital

		Capital					
		Ben	Alvin				
	2024			2024	Ben	Alvin	
	Mar 31	\$	\$	Mar 31	\$	\$	
0.5	Realisation	39 600		Balance b/d (from b)	87 500	100 000	0.5
0.5	Bank	92 067	130 212	Realisation	12 833	12 833	0.5
				Current (W1)	31 334	17 379	1
		<u>131 667</u>	<u>130 212</u>		<u>131 667</u>	<u>130 212</u>	

(3)

Current

	Ben	Alvin		Ben	Alvin
	\$	\$		\$	\$
Drawings	8 000		Balance b/d (\$22 355-\$1 200×1/3)	21 955	
Capital	31 334	17 379	Appropriation account:		
			Share of profit (from d)	<u>17 379</u>	<u>17 379</u>
	<u>39 334</u>	<u>17 379</u>		<u>39 334</u>	<u>17 379</u>

20 marks

QUESTION 8

Marks

(a)

Statement to calculate the inventory value as at 31 December 2023			
	\$	\$	
Inventory value as at 4 January 2024		227 500	0.5
Add: Cost of sales to customers during 1- 4 January 2024 $[(\$40\,000 - \$10\,000) \times 40\%]$	12 000		1
Cost of sales to staff $(\$10\,000 \times 2 \times 40\%)$	8 000		1
Cost of goods sent to customer on 3 January 2024	1 500		0.5
Returns outwards during 1-4 January 2024	<u>900</u>	<u>22 400</u>	1
		249 900	
Less: Purchases during 1- 4 January 2024		<u>13 200</u>	0.5
Inventory value as at 31 December 2023		<u><u>236 700</u></u>	0.5
			(5)

(b)

General Journal			
Date		Dr	Cr
2023		\$	\$
Dec 31	(ii) Inventory $(\$236\,700 - \$227\,500)$	9 200	
	Retained profits		9 200
	(iii) Suspense	17 000	
	Trade receivables		17 000
	(iv) Insurance compensation receivable	5 200	
	Retained profits $(\$6\,500 \times 80\%)$		5 200
	(v) Allowance for doubtful accounts	2 910	
	Retained profits $[\$9\,600 - (\$240\,000 - \$17\,000) \times 3\%]$		2 910
	(vi) Accumulated depreciation – equipment (old)	6 000	
	Retained profits $(\$30\,000 \times 20\%)$		6 000
	Accumulated depreciation – equipment	30 000	
	Equipment (new) $(\$5\,000 + \$45\,000)$	50 000	
	Retained profits		5 000
	Bank		45 000
	Equipment (old)		30 000
	Retained profits $[(\$50\,000 \times 20\%) \times 9/12]$	7 500	
	Accumulated depreciation – equipment (new)		7 500
	(vii) Bank	1 800 000	
	5% Debentures		1 800 000
	(viii) Retained profits	122 000	
	General reserve $(\$247\,000 - \$125\,000)$		122 000

(11)

QUESTION 8 (con't)

Marks

(c)

Statement to calculate the working capital as at 31 December 2023

	\$	
<u>Current assets</u>		
Inventory	236 700	0.5
Trade receivables, net (\$240 000 - \$17 000) x 0.97	216 310	1
Insurance compensation receivable	5 200	0.5
Bank (\$945 600 - \$45 000 + \$1 800 000)	<u>2 700 600</u>	1
	3 158 810	
<u>Less: Current liabilities</u>		
Trade payables	<u>158 000</u>	0.5
Working capital as at 31 December 2023	<u>3 000 810</u>	0.5
		(4)

20 marks

End of Paper 2A