HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2014/15

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES MOCK EXAMINATION

PAPER 2A
ACCOUNTING MODULE
(SUGGESTED ANSWER)

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Section A

Question 1

(a) Classify each of the cost items listed above according to its cost behavior and the first one has been done for you. (2 marks)

(i) Direct materials – variable cost
(ii) Direct labour – varaiable cost **0.5**
(iii) Quality assurance – fixed cost **0.5**
(iv) Equipment hire – step cost **0.5**
(v) Natural gas – semi variable cost **0.5**

(b) Dr. Frost is worrying about the sales volume in winter and you are asked to advise her the margin of safety for her final decision. Calculate the margin of safety of the product in quantity for the winter quarter. (4 marks)

Margin of safety for the winter quarter =

200 **1** – (300 + 700 + 200) **1**/ (12 – 1.2 – 2 -0.8) **1.5** = 50 **0.5**

Question 2

(a) Calculate the overall capital expenditure of the oven made and the total revenue expenditures involved in running the oven for the year ended 30 September 2014.

Capital expenditure	$	
Hardware materials	4,500	**0.5**
Electronic components	3,000	**0.5**
Freight for moving the oven to from workshop to the shop	800	**0.5**
Installation cost	500	**0.5**
	8,800	
Revenue expenditures	$	
License fee for running business (1,000 x 3/4)	750	**0.5**
Electricity for running the machine	4,000	**0.5**
	4,750	

(b)

Accumulated depreciation

2014		$	2014		$	
Sept 30	Balance b/f	630	Sept 30	Depreciation	630	3*
				*(8,800-400)**1** /10**1** *3/4**0.5**		

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Question 3

Make			Buy	
Direct materials	86,400 **0.5**		Direct materials	46,400 **0.5**
Wages	44,300 **0.5**		Wages	24,300 **0.5**
Management salaries	8,500 **0.5**		Management salaries	13,500 **0.5**
Purchase cost			Purchase cost	50,000 **0.5**
Opportunity cost (rental)	30,000 **1**		Opportunity cost (rental)	
	169,200 **0.5**			134,200 **0.5**

Decision to be made: Buy **0.5**

Question 4

Cash Book (Bank)

		$		$	
0.5	(iv) Suspense	1,200	Balance b/d	32,222	**0.5**
0.5	(1) Trades receivable: direct credit	3,211	(ii) Trades receivable/Suspense (balancing figure)	12,754	**0.5**
0.5	(2) Interest income	1,500	(3) Trades receivable: dishonoured cheque	555	**0.5**
0.5	Balance c/d	39,620			
		45,531		45,531	

Bank Reconciliation statement as at 31 March 2014

	$	$	
Balance as per bank statement		(34,554)	**0.5**
Add: (i) Bank wrongly debited a bank charge	988		**0.5**
(v) Uncredited deposit	2,391	3,379	**0.5**
		(31,175)	
Less: (iii) Unpresented cheque		8,445	**0.5**
Balance as per updated cash book		(39,620)	**0.5**

<6 marks>

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Question 5

(a) Prepare the statement of comprehensive income for the year ended 31 December 2013.

Tobias
Income Statement for the year ended 31 December, 2013

	$	$	
Sales ($72,000 x 100/25)		288,000	1
Less Cost of goods sold:			
Opening inventory	10,000		0.5
Add: Purchases	70,000		0.5
	80,000		
Less: Closing inventory	(8,000)		0.5
Cost of goods sold 〔(10,000 + 8,000)/2 x 8〕		(72,000)	1
Gross profit		216,000	
Less Expenses:			
Expenses	129,600	(129,600)	0.5
Net Profit		86,400	1

(5 marks)

Tobias
Statement of Financial Position as at 31 December 2013

	$	
ASSETS		
Non-current assets	98,900	0.5
Current assets		
Inventory	8,000	0.5
Accounts receivable (288,000 x 1 /12)	24,000	1
Bank	3,000	1
(17500 x 2/1)	35,000	
Total assets	133,900	
EQUITY AND LIABILITIES		
Capital	30,000	0.5
Net Profit	86,400	0.5
	116,400	
Current liabilities		
Accounts payable (3 x 70,000 / 12)	17,500	1
Total equity and liabilities	133,900	

(5 marks)

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Question 6

(a)

Absorption costing for the period

	$	$	
Sales (230,000*$3)		690,000	**0.5**
Less: Cost of good sold			
Opening inventory (40,000*$1.9)	76,000		**0.5**
Add: Cost of production (260,000*$1.9)	494,000		**0.5**
	570,000		
Less: Closing inventory (70,000*$1.9)	133,000		**0.5**
	437,000		
Less: Over-absorption (260,000-240,000)*$0.6	12,000	425,000	**0.5**
Gross profit		265,000	
Less: Variable selling and administration overhead	24,000		**0.5**
Fixed selling and administration overhead	96,000	120,000	**0.5**
Net Profit		145,000	**0.5**

(4 marks)

Workings:

1. Overhead absorption rate = $144,000/240,000 = $0.6

2. Unit cost of product
   = (Direct material and labour + Variable production overhead + Fixed production overhead)/ Normal level activity
   = ($264,000 + $48,000 + $144,000)/240,000
   = $1.9/unit

3. Closing inventory = (40,000 + 260,000 – 230,000) units = 70,000 units

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Marginal costing for the period

	$	$	
Sales (230,000*$3)		690,000	**0.5**
Less: Cost of good sold			
Opening inventory (40,000*$1.3)	52,000		**0.5**
Add: Cost of production (260,000*$1.3)	338,000		**0.5**
	390,000		
Less: Closing inventory (70,000*$1.3)	91,000	299,000	**0.5**
Production contribution		391,000	
Less: Variable selling and administration overhead		24,000	**0.5**
Contribution		367,000	
Less: Fixed production overhead	144,000		**0.5**
Fixed selling and administration overhead	96,000	240,000	**0.5**
Net Profit		127,000	**0.5**

(4 marks)

(b)

Reconciliation statement

	$	$	
Net profit as per absorption costing		145,000	**0.5**
Add: Opening inventory (40,000*$0.6)		24,000	**0.5**
		169,000	
Less: Closing inventory (70,000*$0.6)		42,000	**0.5**
Net profit as per marginal costing		127,000	**0.5**

(2 marks)

(c)

If there are no opening inventory **(1)** and no closing inventory **(1)**, the net profit under two different costing system will be the same.

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Question 7

(a)

Journal				
Date	Detail	Dr.	Cr.	
		$	$	
(i)	Bank (120,000*$2.5)	300,000		
	Ordinary share applicants		300,000	0.5
(ii)	Ordinary share applicants	250,000		0.5
	Ordinary share		50,000	
	Share premium		200,000	0.5
(iii)	Ordinary share applicants	50,000		
	Bank		50,000	0.5

(2 marks)

(b)

Income statement for the year ended 30 September 2014

	$	$	$	
Sales (432,116-5,000)			427,116	0.5
Less: Cost of goods sold				
Opening inventory		82,772		0.5
Add: Purchases	112,400			0.5
Add: Carriage inwards	8,600	121,000		0.5
		203,772		
Less: Closing inventory		51,120	152,652	0.5
Gross profit			274,464	
Less: Expenses				
Depreciation ~ Equipment ($48,750-$8,100)*10%		4,065		0.5
Loss on disposal ($8,100-$5,000)		3,100		0.5
Operating expenses		125,392	132,557	
			141,907	
Transfer to general reserves		20,000		0.5
Interim dividends ~ Preference share	1,800			
Interim dividends ~ Ordinary share	8,050			
Proposed dividends ~ Preference share	1,800			0.5
Proposed dividends ~ Ordinary share	24,000	35,650	55,650	0.5
			86,257	

(5 marks)

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Balance sheet as at 30 September 2014

Non-current assets	$	$	$	
Equipment			36,585	
				0.5
Current assets				
Inventory		51,120		0.5
Accounts receivable		394,380		0.5
Bank (-$13,328+$300,000)		286,672		1
		732,172		
Less: Current liabilities				
Accounts payable	42,700			0.5
Refund to unsuccessful applicants	50,000	92,700	639,472	0.5
			676,057	
Financed by:				
Capital and reserves				
340,000 ordinary shares $0.5 each			170,000	0.5
6% preference share capital			60,000	0.5
Share premium ($58,000+$200,000)			258,000	0.5
General reserves ($40,000+$20,000)			60,000	0.5
Retained profit ($16,000+$86,257)			102,257	0.5
Proposed dividends ($1,800+$24,000)			25,800	0.5+0.5
			676,057	

(7 marks)

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Question 8

(a)

Capital

		Winston	Nancy		Winston	Nancy	
		$	$		$	$	
0.5@	Interest on drawings	294	64	Balance b/d	200,000	100,000	**0.5**
0.5@	Share of loss	8,821	8,821	Interest on capital	12,000	6,000	**0.5@**
0.5	Balance c/d	202,885	97,115				
		212,000	106,000		212,000	106,000	

(4 marks)

Workings:

Interest on drawings

Winston	=	$10,800*5%*7/12	=	$294
Nancy	=	$15,360*5%*1/12	=	$64

Interest on Capital

Winston	=	$200,000*6%	=	$12,000
Nancy	=	$100,000*6%	=	$6,000

Net profit adjustment

	$	$
Interest on drawings		358
Interest on capital		(18,000)
		(17,642)
Share of loss		
Winston	8,821	
Nancy	8,821	

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0

(b)

Capital

		Winston	Nancy	Chris		Winston	Nancy	Chris	
		$	$	$		$	$	$	
0.5	Goodwill adjustment			18,000	Balance b/d	202,885	97,115		
	Balance c/d	289,385	183,615	52,000	Machinery			15,000	0.5
					Inventory			20,000	0.5
					Bank			35,000	0.5
					Goodwill adjustment	4,000	4,000		0.5@
					Profit on revaluation	82,500	82,500		1@
		289,385	183,615	70,000		289,385	183,615	70,000	

(5 marks

Workings:

Revaluation

		$		$	
0.5	Inventory ($80,000-$75,000)	5,000	Premises ($230,000 - $100,000)	130,000	0.5
	Profit on revaluation		Machinery ($180,000 - $140,000)	40,000	0.5
	Winston	82,500			
	Nancy	82,500			
		170,000		170,000	

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	Before	After	Net Effect	
Winston	40,000	36,000	Cr. 4,000	0.5
Nancy	40,000	36,000	Cr. 4,000	0.5
Chris	-	18,000	Dr. 18,000	0.5
	80,000	90,000	Cr. Goodwill 10,000	

(c)

Realisation

		$		$	
0.5@	Premises	200,000	Capital ~ Nancy: Machinery	100,000	0.5
	Machinery	165,000	Bank: Premises	110,000	0.5
	Inventory	60,000	Trades receivable: Discounts received	5,000	0.5
	Trades receivable	40,000	Bank: Trades receivable	32,400	0.5
0.5	Capital ~ Nancy: realisation expenses	3,400	Bank: Inventory	35,000	0.5
			Loss on realisation		
			Winston	74,400	1
			Nancy	74,400	
			Chris	37,200	
		468,400		468,400	

(6 marks)

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Capital

		Winston	Nancy	Chris		Winston	Nancy	Chris	
		$	$	$		$	$	$	
	Realisation				Balance b/d	289,385	183,615	52,000	
0.5	~ Machinery		100,000		Realisation		3,400		0.5
0.5	Loss on realization	74,400	74,400	37,200	Share of deficiency			15,200	0.5
1	Share of loss	60,000	60,000	30,000	Bank		54,985		0.5
0.5@	Share of deficiency	7,600	7,600						
0.5	Bank	147,385							
		289,385	242,000	66,360		289,385	242,000	66,360	

(5 marks)

Workings:

Bank

	$		$
Realisation		Balance b/d	40,000
~ Premises	110,000	Trades payable	45,000
~ Trades receivables	32,400	Capital ~ Winston	147,385
~ Inventory	35,000		
Capital ~ Nancy	54,985		
	232,385		241,485

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Question 9

(a) Advise Jenny the correct accounting treatment to each of the five measures mentioned above. (12.5 marks)

		Dr		Cr	
		$		$	
i.	Equipment	50,000	**1**		
	Current account – Jenny			50,000	**1**
	Depreciation (50,000/5)	10,000	**0.5**		
	Accumulated depreciation			10,000	**0.5**
ii.	Advertising	50,000	**1.5**		
	Bank			37,500	**0.5**
	Accrued advertising			12,500	**1**
iii.	Profit and loss	100,000	**1**		
	Provision for refund			100,000	**1.5**
iv.	Bank	50,000	**1**		
	Deposit			50,000	**1**
v.	Inventory	15,000	**1**		
	Trading / Profit and loss			15,000	**1**

(b) Name and explain one accounting concept underlying each of the five accounting treatments you suggest in part (a) above. (7.5 marks)

i. Business entity **0.5**– the business of the firm should be distinguished from that of the owner. **1**

ii. Matching**0.5** – expenses incurred should be matched with the revenue derived **1**

iii. Prudence**0.5** – a firm should anticipate no profits but provide for all losses **1**

iv. Realization**0.5**– revenue is recognized when it is earned **1**

v. Consistency**0.5** – same accounting methods should be applied in all periods **1**

******END OF SUGGESTED ANSWER******

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