HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AND

HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2018/19

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES MOCK EXAMINATION

PAPER 2A ACCOUNTING MODULE

SUGGESTED SOLUTION

Section A

Question 1

(a)

Cash Book (Bank Column)

	2018		$	2018		$	
	Nov.			Nov.			
0.5	30	Balance b/d	32,193	30	Electricity	1,345	0.5
0.5	30	Trade receivable – Yu Wing	4,675	30	Telephone charge	560	0.5
0.5	30	Suspense / Rachel	270	30	Trade receivable – Hung Hing	30,000	0.5
0.5	30	Dividends income	600	30	Overdraft interest	1,203	0.5
0.5	30	Trade payable – stale cheque	400	30	Balance c/d	5,030	0.5
			38,138			38,138	

<5 Marks>

(b)

Lawrence Lee
Bank reconciliation statement as at 30 November 2018

	$	$	
Balance as per corrected cash book		5,030	0.5
Add: Unpresented cheque			
- 28101	1,100		0.5
- 28114	3,600		0.5
- 28117	12,600	17,300	0.5
		22,330	
Less: Uncredited deposit		25,000	0.5
Balance as per bank statement		(2,670)	0.5

<3 Marks>

<Total: 8 marks>

Question 2

	Net effect on accounting equation	**Accounting entries**
(a)	(1) Increase asset Increase liability (0.5)	(2) Debit office equipment (0.5) Credit other payable - Eva Limited (0.5)
(b)	(3) Increase expense Decrease asset (0.5)	(4) Debit purchases (0.5) Credit cash (0.5)
(c)	(5) No change (0.5)	(6) Debit cash (0.5) Credit cash at bank (0.5)
(d)	(7) Decrease liability Decrease expense (0.5)	(8) Debit trade payable (0.5) Credit returns outwards (0.5)
(e)	Not Required	(9) Debit profit and loss (0.5) Credit purchases (0.5)
(f)	Not Required	(10) Debit prepaid commission expense (0.5) Credit commission expense (0.5)

<Total: 8 marks>

Question 3

(a) Cost that can be **directly attributed** to or **traced in full** to a given cost object.

<1 mark>

(b)

Direct cost: (1), (2), (4)

Indirect cost: (3), (5), (6), (7), (8)

Alternatively,

1	Cocoa beans and cocoa butter	Direct cost
2	Packaging materials	Direct cost
3	Wages for plant process operators	Indirect cost
4	Packaging labour	Direct cost
5	Depreciation on plant and machinery	Indirect cost
6	Staff salaries in the general office	Indirect cost
7	Rent, rates and utilities	Indirect cost
8	Incorporation fees	Indirect cost

(½ mark for ANY 2 correct answer)

<2 marks>

(c)

	$	
Direct materials		
(1) Cocoa beans and cocoa butter ($5.6 x 28,800)	161,280	**0.5**
(2) Packaging materials ($1.2 x 96,000)	115,200	**0.5**
Direct labour		
(4) Packaging labour ($45 x 8,000)	360,000	**0.5**
Prime Cost	**636,480**	
Prime cost	636,480	**0.5**
Manufacturing overheads:		
(3) Wages for plant process operators ($10,000 x 3 x 12 + $85 x 120)	370,200	**0.5**
(5) Depreciation on plant and machinery ($534,000 x 96,000 ÷ 768,000)	66,750	**0.5**
(7) Rent, rates and utilities for plant ($410,000 x $^{4}/_{5}$)	328,000	**0.5**
Product cost	**1,401,430**	**0.5**
(6) Staff salaries in the general office	167,000	
(7) Rent, rates and utilities for general office ($410,000 x $^{1}/_{5}$)	82,000	
(8) Incorporation fees	2,250	
Period cost	**251,250**	**1**

<5 marks>

<Total: 8 marks>

Section B

Question 4

(a)

Aaron, Bob and Carmen
Appropriation account for the year ended 30 September 2018

	$	$	
Net loss for the year		(194,500)	
Add: Interest on drawings			
- Aaron ($82,500 x 8% x 10/12)	5,500		0.5
- Bob ($60,000 x 8% x 7/12)	2,800	8,300	0.5
		(186,200)	
Less: Interest on capital			
- Aaron ($400,000 x 10%)	40,000		
- Bob ($300,000 x 10%)	30,000		1
- Carmen ($100,000 x 10%)	10,000	80,000	
		(266,200)	
Share of loss			
- Aaron (2/5)		(106,480)	
- Bob (2/5)		(106,480)	1
- Carmen (1/5)		(53,240)	
		(266,200)	

<3 Marks>

(b)

Realization

		$		$	
0.5	Machinery	545,000	Loan from Aaron	355,000	0.5
	Motor vehicles	300,000	Bank: Trade receivable*	106,300	1
	Inventory	120,000	Trade payable	127,500	0.5
	Trade receivable	228,000	Trade payable: discount received	22,500	0.5
0.5	Capital - Bob: realization exp.	15,600	Bank: Motor vehicles	180,000	0.5
			Bank: Inventory	100,000	0.5
			Loss on realization:		
			Capital - Aaron	126,920	
			Capital - Bob	126,920	0.5
			Capital - Carmen	63,460	
		1,208,600		1,208,600	

*{$240,000 – $5,000 – $1,200 – [$150,000 x (1 – 15%) (½)]}

<5 Marks>

(c)

Capital account

		Aaron	Bob	Carmen		Aaron	Bob	Carmen	
		$	$	$		$	$	$	
1	Current account	148,480	144,280	39,240	Balance b/d	400,000	300,000	100,000	0.5
	Realization ~				Realization ~				
0.5	Loss on realization	126,920	126,920	63,460	Realization exp.		15,600		0.5
0.5@	Bank	124,600	44,400		Bank			2,700	0.5
		400,000	315,600	102,700		400,000	315,600	102,700	

<4 Marks>

<Total: 12 marks>

Workings:

Current account

	Aaron	Bob	Carmen		Aaron	Bob	Carmen
	$	$	$		$	$	$
Balance b/d		5,000		Balance b/d	6,000		4,000
Int. on drawings	5,500	2,800		Int. on capital	40,000	30,000	10,000
Drawings	82,500	60,000		Capital a/c	148,480	144,280	39,240
Share of loss	106,480	106,480	53,240				
	194,480	174,280	53,240		194,480	174,280	53,240

Bank

	$		$
Realization: Trade receivable	106,300	Balance b/d	170,000
Realization: Motor vehicles	180,000	Accrued expenses	50,000
Realization: Inventory	100,000	Capital - Aaron	124,600
Capital - Carmen	2,700	Capital - Bob	44,400
	389,000		389,000

Accrued expenses

	$		$
Bank	50,000	Balance b/d	50,000

Loan from Aaron

	$		$
Realization	355,000	Balance b/d	355,000

Trade payable

	$		$
Realization	127,500	Balance b/d	150,000
Realization: Discounts received	22,500		
	150,000		150,000

Question 5

(a)

Berkeley Limited

Statement to calculate the closing inventory value as at 31 December 2018

	$	$	
Inventory value as at 20 December 2018		43,270	
Add: Purchases	8,390		0.5
Cost of sales on sale or return basis ($840 ÷ 120%)	700	9,090	0.5
		52,360	
Less: Cost of sales ($8,256 ÷ 120%)		6,880	0.5
Inventory value as at 31 December 2018		45,480	0.5

<2 Marks>

(b)

Cash

	2018	$	2018	$	
	Balance b/d	55,120	Office equipment	40,000	0.5
0.5	Trade receivables	910,100	Bank	618,750	0.5
	($42,500 + $921,600 – $54,000)		Selling and distribution expenses	76,000	0.5
			Administrative expenses	32,000	0.5
			Cash loss	67,700	0.5
			Balance c/d	130,770	
		965,220		965,220	

<3 Marks>

Workings:

Bank

2018	$	2018	$
Balance b/d	260,380	Trade payables	807,000
Cash	618,750	($38,000 + $796,000 – $27,000)	
		Balance c/d	72,130
	879,130		879,130

(c)

Berkeley Limited

Income Statement for the year ended 31 December 2018

		$	
Sales		921,600	0.5
Less: Cost of goods sold			
Opening inventory	42,000		0.5
Add: Purchases	796,000		0.5
	838,000		
Less: Inventory loss	24,520		1
Closing inventory (from part (a))	45,480	768,000	0.5
Gross profit ($921 600 x 20/120)		153,600	0.5
Gain on disposal of office equipment (($70 000 - $40 000) – ($50 000 – $30 000)		10,000	0.5
		163,600	
Less: Expenses			
Administrative expenses ($32 000 + $30 000 (½))	62,000		1
Selling and distribution expenses ($76 000 + $4400)	80,400		0.5
Cash loss	67,700		0.5
Inventory loss	24,520	234,620	0.5
Net loss		(71,020)	0.5

<7 Marks>

<Total: 12 marks>

Question 6

(a)

	3,500 bottles	
	$	
Material (3,500 x $3 x 80%)	8,400	0.5
Labour (3,500 x $2.5)	8,750	0.5
Production overheads ($1,500 + 3,500 x $1.5)	6,750	0.5
Plant Rental	62,000	0.5
Inspection	1,600	0.5
	87,500	
Profit	14,000	
	101,500	

$101,500 ÷ 3,500 = $29 per bottle. (0.5)

<3 Marks>

High-low method for production overheads

Variable cost per unit = ($6,000 - $3,750) ÷ (3,000 - 1,500)
= $1.5 per unit

Fixed cost = $6,000 - $1.5 x 3,000
= $1,500

(b) Absorption costing

Income statement for the first month of operation

	$	$	
Sales ($29 x 3,300)		95,700	0.5
Less: Production cost of goods sold			
Opening inventory	-		
Production costs ($25 x 3500)	87,500		0.5
Less: Closing inventory ($25 x 200)	(5,000)		0.5
	82,500		
Add: Under absorption#	4,750		1.5
Cost of goods sold		(87,250)	
Gross Profit		8,450	0.5
Less: Operating expenses			
Packaging ($0.5 x 3,300)	1,650		0.5
Salary	10,000	(11,650)	0.5
Net loss		(3,200)	0.5

<5 Marks>

#

	$		
Production overheads ($7,500 - $1,500 - 3,500 x $1.5) OR ($7,500 - $6,750)	750	Under absorption	(½)
Plant rental ($66,000 - $62,000)	4,000	Under absorption	(½)
	4,750	Under absorption	

(c) Retain or Replace

Retain	$	
Terminal disposal value	1,000	1
Incremental profit	1,000	

Replace	$	
Lump sum cost	(200,000)	0.5
Old machine current disposal value	5,000	0.5
Scrap value	30,000	0.5
Rental income ($1,000 x 36)	36,000	0.5
Labour saving ($2.5 x 0.5 x 3500 x 36)	157,500	0.5
Incremental profit	28,500	

There will be more incremental profit of $27,500 ($28,500 – $1,000) and Terry should replace the old machine. (0.5)

<4 Marks>

<Total: 12 marks>

Section C

Question 7

(a) (i)

Susanna Limited
Income Statement for the year ended 31 December 2018

	$	$	
Sales ($4,720,000 + $20,000)		4,740,000	0.5
Less: Returns inwards		13,000	0.5
		4,727,000	
Less: Cost of goods sold			
Opening inventory	229,000		0.5
Add : Purchases	2,426,000		0.5
Less: Returns outwards	25,000		0.5
	2,630,000		
Less: Closing inventory{$60,000 – [$24,000 – ($18,000 – $5,000)]}	49,000	2,581,000	0.5
Gross profit		2,146,000	
Other income: Allowance for doubtful accounts ($38,000 - $17,000)		21,000	0.5
		2,167,000	
Less: Administrative expenses (W1)	437,000		0.5
Distribution and selling expenses	200,000		0.5
Depreciation: land and buildings ($6,000,000 ×5%)	300,000		0.5
Depreciation: plant and machinery {($250,000 x 80% x 80%) x 20% x ¾ + [($970,000 - $250,000) - ($280,000 + $24,000 - $114,000)] x 20%}	130,000		0.5
Bad debts	22,000		0.5
Debenture interest ($500,000 × 8% x ¼)	10,000	1,099,000	0.5
Profit before tax		1,068,000	
Less: Income tax expense		130,000	0.5
Profit after tax		938,000	

<7 Marks>

(ii) Statement to calculate retained profits as at 31 December 2018

	$	$	
Profit for the year		938,000	
Add: Retained earnings brought forward		556,000	0.5
		1,494,000	
Less: 2017 final dividend paid	120,000		0.5
2018 interim dividend paid	150,000		0.5
Transfer to general reserve	500,000	770,000	0.5
Retained earnings carried forward		724,000	

<2 Marks>

(W1) Administrative expenses:

	$
Operating expenses ($301,000 - $20,000)	281,000
Disposal Loss ($250,000 + $20,000 - $114,000)	156,000
	437,000

(iii)

Susanna Limited

Statement of Financial Position as at 31 December 2018

	$	$	$	
		Accumulated	*Net book*	
Non-current assets	*Cost*	*depreciation*	*value*	
Land and buildings	6,000,000	1,800,000	4,200,000	0.5
Plant and machinery	720,000	296,000	424,000	0.5
	6,720,000	1,796,000	4,624,000	
Current assets				
Inventory		49,000		0.5
Trade receivables ($342,000 - $22,000 + $20,000)	340,000			0.5
Less: Allowance for doubtful accounts				
($340,000 x 5%)	17,000	323,000		0.5
Bank		2,114,000		0.5
		2,486,000		
Less: *Current liabilities:*				
Trade payables	246,000			0.5
Debenture interest payable	10,000			0.5
Excess application monies owing	300,000			0.5
Tax payable	130,000	686,000		0.5
Net current assets			1,800,000	
			6,424,000	
Financed by:				
Capital and reserves				
Ordinary share capital ($2,000,000 + $1,500,000)			3,500,000	0.5
General reserves ($1,200,000 + $500,000)			1,700,000	0.5
Retained profits			724,000	0.5
			5,924,000	
Non-current liabilities				
8% debentures			500,000	0.5
			6,424,000	

<7 Marks>

(c)

Accounting Ratios	*Formula*	*Year 2018*	*Industrial average*	
Return on capital employed	$\frac{\text{Net profit before tax + Interest}}{\text{Average Capital employed}}$	$\frac{1,068 + 10}{(3,756 + 6,424)/2}$ = 21.18%	18%	1
Earnings per share	$\frac{\text{net profit after tax – preference dividend}}{\text{number of ordinary shares issued}}$	$\frac{938 – 0}{1,000 + 0}$ = 93.80 cents	75 cents	1

Comments:

Susanna Limited is a good investment because it has

– higher return on capital employed: it has higher profitability with more efficient use of its capital to generate profits 1

– higher earnings per share: it has higher profitability and the amount of profits earned for each outstanding share is higher 1

<4 Marks>

<Total: 20 marks>

Question 8

(a)

It violates business entity concept. **(0.5)**

Business entity concept states that the transactions associated with a business must be separately recorded from those of its owners or other businesses. **(0.5)**

It requires that Jenny should prepare two sets of financial statements for Café Home and Coffee Home separately. *(Alternatively, Jenny should completely exclude the assets and liabilities of the other entity – Coffee Home when preparing financial statements for Café Home)* **(1)**

<2 marks>

(b)

(i) It violates realization principle. **(0.5)**

Revenues can be recognized when the goods or services associated with the revenues have been delivered or rendered respectively. Any receipts that have not been earned should be recorded as a liability. **(0.5)**

As one of the two sessions have been provided to members, Jenny should recognize half of the course fee as revenues in 2018 **(0.5)** regardless of the attendance of the course (i.e. 80% attendance) **(0.5)**. The remaining receipts was to be recognized as a liability (i.e. unearned revenues). **(0.5)**

(ii) The Journal

	Dr ($)		Cr ($)	
Course revenues ($38,376 – $23,985)	14,391	**(0.5)**		
Suspense	9,594	**(0.5)**		
Unearned revenues			23,985	**(0.5)**

<4 marks>

Workings:

The bookkeeper recorded:

DEBIT	Cash at bank [$900 x 90% x 17 + $900 x (55 – 17)]	$47,970	
CREDIT	Course revenues		$38,376

The correct entry should have been recorded:

DEBIT	Cash at bank	$47,970	
CREDIT	Course revenues		$23,985
CREDIT	Unearned revenues		$23,985

(c)

The Journal				
		Dr	Cr	
		$	$	
(i)	Allowance for doubtful accounts	2,025		0.5
	Profit and loss		2,025	0.5
(ii)	Prepaid rent	23,400		0.5
	Rental deposit ($64,800 x 2)	129,600		1
	Profit and loss	19,800		1
	Suspense		172,800	0.5
(iii)	Profit and loss	1,700		0.5
	Inventory ($500 + $3,000 x 40%)		1,700	0.5
(iv)	Profit and loss	30,000		0.5
	Provision for compensation		30,000	0.5
(v)	Profit and loss	64,000		0.5
	Accumulated depreciation – Café Equipment		64,000	0.5

<7 marks>

Workings for (i):
Allowance for doubtful accounts at year end
= $93,000 x 2% + $16,300 x 5% + $3,500 x 10% + $10,000 x 20% + $4,200 x 30%
= $6,285
Adjustment required for allowance for doubtful accounts
= $8,310 – $6,285
= $2,025

Workings for (ii):
Monthly rent per contract
= $64,800 ÷ 3
= $21,600
Total payment made during the year
= $64,800 + $21,600 x 2
= $108,000
Monthly rent amortized
= $21,600 x (24 – 2) ÷ 24
= $19,800
The bookkeeper recorded:

DEBIT	No debit entry		
CREDIT	Rental deposit		$64,800
CREDIT	Cash at bank		$108,000

The correct entry should have been recorded:

DEBIT	Profit and loss account – Rent	$19,800	
DEBIT	Rental deposit	$64,800	
DEBIT	Prepaid expenses	$23,400	
CREDIT	Cash at bank		$108,000

Workings for (v):
Depreciation had been charged
= $800,000 x 10%
= $80,000
Net book value as at 1.1.2018
= $800,000 – $80,000
= $720,000
Depreciation should have been provided
= $720,000 ÷ 5
= $144,000
Depreciation under-provided
= $144,000 – $80,000
= $64,000

(d)

Café Home
Post-closing trial balance as at 31 December 2018

	Dr	Cr	
	$	$	
Café Equipment	800,000		**0.5**
Accumulated depreciation – Café Equipment		224,000	**0.5**
Inventory	108,300		**0.5**
Trade receivables	127,000		**0.5**
Allowance for doubtful accounts		6,285	**0.5**
Prepaid rent	23,400		**0.5**
Rental deposit	64,800		**0.5**
Bank overdraft		16,980	**0.5**
Provision for compensation		30,000	**0.5**
Capital (workings)		846,235	**2.5**
	1,123,500	1,123,500	

<7 marks>

Workings:

Opening Capital	1,000,000	**0.5**
Less: Loss for the year ($11,240 – $2,025 + $19,800 + $1,700 + $30,000 + $64,000)	124,715	**1.5**
Drawings	29,050	**0.5**
Closing Capital	846,235	

<Total: 20 marks>

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