HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AND

HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2021/22

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES MOCK EXAMINATION

PAPER 2A
ACCOUNTING MODULE

SUGGESTED ANSWER

Question 1

(a)

Based on realisation concept, revenue should be recognised only when goods are dispatched and accepted by the customers, or after the services have been provided.

(1)

(b)

Goods is sold under sales or return basis or goods in transit (the seller still have control over the transferred goods).

(1)

(c)(i) Historical Cost Concept (1)

Under the historical cost concept, business transactions are recorded in the accounting books at the transaction price--that is, their actual cost at the time the transaction took place.

(1)

Historical cost is the amount that is originally paid to acquire the asset and may be different from the current market value. Although the market price of the computer has significantly increased, the amount entered in the statement of financial position and other accounting records would continue unchanged at the cost of acquisition. There should not be any non-current asset gain for the year.

(1)

(c)(ii) Money Measurement Concept (1)

Only transactions that capable of being expressed in monetary terms are included in the accounting records / financial statements of an entity.

(1)

Good online image cannot be quantified, any estimation may be very subjective and not be agreed by other people. Thus, this item cannot be measured in terms of money and should not be included in the financial statements.

(1)

<Total: 8 marks>

Question 2

(a)

	3 boxes of Super Chocolate	2 boxes of Mocha Chocolate	
	$	$	
Selling price	300	330	1
Less:			
Variable manufacturing cost ($35 × 3)	105	105	1
Packaging cost ($15 × 3), ($17.5 × 2)	45	35	1
Further manufacturing cost ($11 × 2)	-	22	0.5
Contribution margin	150	168	

As "Mocha" chocolate generates a higher amount of contribution margin than "Super" chocolate, its production and sales are recommended. (0.5)

(4 marks)

(b)

	Product					
	Super Chocolate		Mocha Chocolate		Good Chocolate	
Contribution margin per each box	$50		$84		$80	
Machine hours required per box	0.4		0.8		1	
Contribution margin per machine hour	$125	0.5	$105	0.5	$80	0.5
Rank	1		2		3	

	Machine hours required	Production quantity (boxes)	
Good Chocolate (with contract signed)	8,000	8,000	1
Super Chocolate	28,000	70,000	0.5
Mocha Chocolate	4,000	5,000	1
	40,000		

(4 marks)

<Total: 8 marks>

Question 3

The Journal

Date	Details	Dr $	Cr $	
Dec 31				
(i)				
	Allowance for doubtful accounts	10,600		0.5
	Trade receivables		10,600	0.5
	Trade receivables	9,200		0.5
	Allowance for doubtful accounts		9,200	0.5
	Bad debts expense [$52,860 – ($48,600 – $10,600 + $9,200)]	5,660		1
	Allowance for doubtful accounts		5,660	0.5
	Working: Allowance for doubtful account as at 31 December 2021 = $532,000 × 1% + $98,000 × 8% + ($90,000 – $10,600) × 50% = $52,860			
(ii)	Rental income	190,250		0.5
	Unearned income		190,250	0.5
(iii)	Equipment ($2,250,000 + $7,000 + $28,000 + $90,000)	2,375,000		0.5
	Maintenance expense	25,000		0.5
	Cash at bank		2,400,000	0.5
	Depreciation expense – Equipment [($2,375,000 – $75,000) ÷ 8 × $^{9}/_{12}$]	215,625		0.5
	Accumulated depreciation – Equipment		215,625	0.5
	Depreciation expense – Furniture [($10,000,000 ÷ 10 × (10 – 3)) ÷ 4]	1,750,000		0.5
	Accumulated depreciation – Furniture		1,750,000	0.5

(8 marks)

<Total: 8 marks>

Workings:

Allowance for doubtful accounts

	$		$
Trade receivables	10,600	Balance b/d	48,600
Balance c/d	52,860	Trade receivable – bad debts recovery	9,200
		Bad debts expense	5,660
	63,460		63,460

Question 4

(a)

		$	$	
Sales	[$3,920,000 ÷ (100,000 × 80% × (1 - 2%))]		50.00	1
Less:	Variable Costs			
	Direct materials [$200,000 ÷ (100,000 × 80%)]	2.50		}0.5
	Direct labour [$304,000 ÷ (100,000 × 80%)]	3.80		
	Selling and administrative overheads – variable			
	[$290,080 ÷ (100,000 × 80% × (1 - 2%))]	3.70	10.00	1
Contribution margin per unit			40.00	0.5

(3 marks)

(b)

	$	
Fixed production overheads ($360,000 - $40,000)	320,000	
Fixed selling and administrative overheads	500,000	
Total fixed overheads	820,000	1
Contribution margin ratio ($40 ÷ $50 × 100%)	÷ 80%	0.5
Breakeven sales	1,025,000	0.5

(2 marks)

(c)

Closing inventory under marginal costing system		
Direct materials	$2.5	0.5
Direct labour	$3.8	0.5
Unit cost under marginal costing system	$6.3	
No. of units unsold (100,000 × 80% × 2%)	1,600	0.5
	$10,080	0.5

(2 marks)

(d)

Under marginal costing system, fixed production overheads are expensed in full as period costs.
Under absorption costing system, the fixed production overheads is added to production cost at the rate of $4.50 per unit and a portion is capitalised in the ending inventory. 1

The net profit reported under the absorption costing system would be $7,200 (1,600 × $4.5*) higher than that of the marginal costing system. 1

*Pre-determined overhead absorption rate = $360,000 ÷ 80,000 units = $4.5 per unit

Statement to calculate the revised profit under marginal costing system

	$
Net profit under absorption costing system	2,323,200
Less: Fixed production overheads absorbed in closing inventory	7,200
Net profit under marginal costing system	2,316,000

(2 marks)

(e)

Contribution margin per unit for special order

	$	$	
Sales price		40.00	
Less: Variable Costs			
Direct materials	2.50		
Direct labour ($3.80 × 3)	11.40		
Selling and administrative overheads – variable ($3.70 ÷2)	1.85	15.75	
Contribution margin per unit		24.25	

	$	
Total contribution margin for the special order ($24.25 × 30,000)	727,500	1.5
Less: Contribution margin for normal sales given up [(90,000 + 30,000) – (100,000 + 1,600)] × $40	736,000	1
Decrease in contribution margin	(8,500)	

Happy Company should not accept the special order because there is a decrease in contribution margin of $8,500. 0.5

(3 marks)

<Total: 12 marks>

Question 5

(a)

Cash Book

	Date	Details	Discount	Cash	Bank	Date	Details	Discount	Cash	Bank	
	2021		$	$	$	2021		$	$	$	
0.5	Mar 1	Balance b/d		5,640		Mar 1	Balance b/d			4,500	0.5
0.5	Mar 1	Trade receivable - Miss Lam	680		100,320	Mar 7	Motor vehicle deposit			20,000	0.5
0.5	Mar 3	Trade payable- Miss Au			5,000	Mar 10	Cash			1,000	
0.5	Mar 5	Sales		7,000		Mar 10	Purchases		500		0.5
	Mar 10	Bank		1,000		Mar 14	Drawings		500		0.5
0.5	Mar 25	Trade receivable - Apple Company	1,000		24,000	Mar 15	Trade payable - Jeff Company*	4,230		100,370	1.5
0.5	Mar 30	Trade payable - Ocean Limited			300	Mar 31	Bank		7,640		0.5
0.5	Mar 31	Cash			7,640	Mar 31	Balance c/d		5,000	11,390	0.5
			1,680	13,640	137,260			4,230	13,640	137,260	

(8 marks)

* $20,000 + $500 × 180 × 94% × 95% = $100,370 (1)
* $500 × 180 × 94% × 5% = $4,230 (0.5)

(b)

Shanice

Statement to calculate the bank statement balance as at 31 March 2021

	$	$	
Unadjusted bank account balance		11,390	0.5
Add: Bank error – incorrect credit transfer (iv)	4,400		0.5
Credit transfer from the term deposit (vi) ($30,000 × 5% × 7/12 + $30,000)	30,875	35,275	0.5
		46,665	
Less: Uncredited deposit (i)	300		0.5
Overdraft interest (ii)	45		0.5
Dishonoured cheque by a customer (iii)	24,000		0.5
Direct debit of electricity (v)	900	25,245	0.5
Bank statement balance		21,420	0.5

(4 marks)

<Total: 12 marks>

Question 6

(a)

Current account

		Alan	Ivan	Ken		Alan	Ivan	Ken	
		$	$	$		$	$	$	
	Balance b/d			89,850	Balance b/d	278,900	998,460		
	Drawings		62,000	32,700	Appropriation:				
0.5	Profit and loss – salaries			1,620,000	- Salaries			2,320,000	0.5
	Appropriation:				- Share of profit	759,145	759,145	759,145	1
0.5	- Interest on drawings		775	1,090					
0.5	Bank	30,000	30,000						
0.5	Capital - Ken			1,335,505					
	Balance c/d	1,008,045	1,664,830						
		1,038,045	1,757,605	3,079,145		1,038,045	1,757,605	3,079,145	

(3.5 marks)

Capital account

		Alan	Ivan	Ken	Eric		Alan	Ivan	Ken	Eric	
		$	$	$	$		$	$	$	$	
0.5	Goodwill	348,030	232,020		116,010	Balance b/d	3,000,000	1,000,000	2,800,000		
0.5	Office furniture			792,000		Revaluation: profit	108,920	108,920	108,920		0.5
0.5	Cash at bank			3,486,125		Goodwill	33,700	33,700	33,700		0.5
0.5	Capital – Eric	116,010				Current – Ken			1,335,505		0.5
	Balance c/d	2,678,580	910,600		600,000	Cash at bank				600,000	0.5
						Capital – Alan				116,010	0.5
		3,142,620	1,142,620	4,278,125	716,010		3,142,620	1,142,620	4,278,125	716,010	

(4.5 marks)

Workings 1:

Appropriation account for the year ended 31 December 2020

		$	$
Net profit before interest and appropriation			2,904,000
Add:	Credit sale omitted		96,000
	Salaries to Ken		1,620,000
			4,620,000
Less:	Interest on loan from Ivan ($110,750 × 4%)	4,430	
	Closing inventory overstated	20,000	24,430
Adjusted net profit for the year			4,595,570
Add:	Interest on drawings		
	Ivan ($62,000 × 5% × $^3/_{12}$)	775	
	Ken ($32,700 × 5% × $^8/_{12}$)	1,090	1,865
			4,597,435
Less:	Salaries to Ken ($580,000 × 4)		2,320,000
			2,277,435
Share of residual profit			
	Alan	759,145	
	Ivan	759,145	
	Ken	759,145	2,277,435
			2,277,435

Workings 2:

Revaluation

	$		$
Delivery trucks	63,620	Buildings ($5,600,000 – $5,210,000)	390,000
Profit on revaluation:		Allowance for doubtful accounts	380
Capital – Alan	108,920	($9,600 – ($88,400 + $96,000) × 5%)	
Capital – Ivan	108,920		
Capital – Ken	108,920		
	390,380		390,380

Workings 3:

Goodwill adjustment

	old ratio	new ratio
	$	$
Alan	33,700	348,030
Ivan	33,700	232,020
Ken	33,700	-
Eric	-	116,010
	101,110	696,060

(b)

Alan, Ivan and Eric
Statement of financial position as at 1 January 2021

	$	$	$	
Non-current assets				
Buildings, net			5,600,000	
Office furniture, net ($880,000 × 10%)			88,000	0.5
Delivery trucks, net ($964,800 – $63,620)			901,180	0.5
			6,589,180	
Current assets				
Inventory ($731,000 – $20,000)		711,000		0.5
Trade receivables ($88,400 + $96,000)	184,400			
Less: Allowance for doubtful accounts ($184,400 × 5%)	9,220	175,180		0.5
		886,180		
Less: Current liabilities				
Trade payables	62,000			
Accrued interest expense	4,430			0.5
Bank overdraft *	436,125	502,555		0.5
Net current assets			383,625	
			6,972,805	
Financed by:				
Capital				
- Alan		2,678,580		
- Ivan		910,600		0.5
- Eric		600,000	4,189,180	
Current				
- Alan		1,008,045		0.5
- Ivan		1,664,830	2,672,875	
			6,862,055	
Non-current liabilities				
4% Loan from Ivan			110,750	
			6,972,805	

* Bank overdraft = ($2,510,000 – $60,000 – $3,486,125 + $600,000)

(4 marks)

<Total: 12 marks>

Question 7

(a)

The Journal				
Date	Details	Dr. $	Cr. $	
(i)	Prepaid selling and distribution expenses / Samples for promotion ($34 500 ÷ 150%)	23,000		0.5
	Purchases		23,000	0.5
(ii)	Suspense	27,200		0.5
	Other revenue	3,800		0.5
	Selling and distribution expense – Sales Commission		31,000	0.5
(iii)	Suspense	60,000		0.5
	Returns inwards	30,000		0.5
	Sales		60,000	0.5
	Accounts receivable		30,000	0.5
	Compensation receivable	5,850		0.5
	Selling and distribution expenses	650		0.5
	Inventory loss		6,500	0.5
	[$20,000 – ($20,000 × 150% × 50% – $1,500)]			
(iv)	Motor vehicles ($340,000 + $38,000 + $10,000)	388,000		0.5
	Administrative expenses	22,000		
	Accounts payable		410,000	0.5
	Administrative expenses ($388,000 × 20% × $^6/_{12}$)	38,800		0.5
	Accumulated depreciation – Motor vehicles		38,800	0.5

(8 marks)

(b)

Sunshine Limited
Income Statement for the year ended 31 December 2020

	$	$	
Sales ($1,986,000 + $60,000)		2,046,000	0.5
Less: Returns inwards		30,000	0.5
		2,016,000	
Less: Cost of goods sold			
Opening inventory	168,000		0.5
Add: Purchases ($1,344,000 – $23,000 (i))	1,321,000		0.5
	1,489,000		
Less: Inventory loss	6,500		0.5
Closing inventory ($212,000 – $23,000 (i) – $6,500 (iii))	182,500	1,300,000	0.5
Gross profit		716,000	
Add: Other revenue ($86,000 – $3,800(ii))		82,200	0.5
		798,200	
Less: Expenses			
Administrative expenses ($406,000 + $22,000 (iv) + $38,800 (iv))	466,800		1
Selling and distribution expenses ($143,000 – $31,000 (ii) + $650 (iii))	112,650		1
Finance expenses ($36,000 + $6,000)	42,000	621,450	0.5
Net profit		176,750	

(6 marks)

(c)

Sunshine Limited
Statement of financial position as at 31 December 2020

Assets	$	$	$	
Non-current assets				
Motor vehicles ($920,000 + $388,000)			1,308,000	
Less: Accumulated depreciation ($440,000 + $38,800)			478,800	
			829,200	0.5
Current assets				
Inventory		182,500		0.5
Accounts receivable ($165,000 – $30,000)		135,000		0.5
Prepaid selling and distribution expenses / Samples for promotion		23,000		0.5
Compensation receivable		5,850		0.5
Cash at bank		828,000		0.5
		1,174,350		
Less: Current liabilities				
Accounts payable ($259,800 + $410,000)	669,800			0.5
Accrued expenses ($200,000 × 12% × $^3/_{12}$)	6,000	675,800		0.5
Net current assets			498,550	
			1,327,750	
Financed by:				
Capital and reserves				
Ordinary share capital			684,000	0.5
Retained profits ($129,100 + $176,750 – $112,100 – $51,000)			142,750	0.5
General reserve ($250,000 + $51,000)			301,000	0.5
			1,127,750	
Non-current liabilities				
12% Debentures			200,000	0.5
			1,327,750	

(6 marks)

<Total: 20 marks>

Question 8

(a)

Supra Limited
Income statement
for the year ended 31 December 2020

	$	$	
Sales ($879,000 + $450,000)		1,329,000	1
Less: Cost of goods sold			
Opening inventory	318,575		0.5
Add: Purchases [($225,000 + $350,000) ÷ 2 × 3]	862,500		1
	1,181,075		
Less: Closing inventory	36,450		0.5
	1,144,625		
Less: Inventory loss (Bal. fig)	284,000	860,625	0.5
Gross Profit [($1,329,000 – $80,000) × $^{60}/_{160}$]		468,375	1
Less: Expenses			
Administrative expense ($147,520 + $38,950 + $22,500)	208,970		1
Selling and distribution expenses ($120,330+$26,000–$44,038)	102,292		1
Depreciation expense: Machinery [($730,000 - $138,700) × 10% + $280,000 × 10%]	87,130		0.5
Inventory loss ($284,000 × 10%)	28,400	426,792	0.5
Net profit		41,583	0.5

(8 marks)

(b)

Supra Limited
Statement of financial position
as at 31 December 2020

	$	$	$	
Non-current assets				
Machinery			1,010,000	0.5
Less: Accumulated depreciation			225,830	0.5
			784,170	
Current assets				
Inventory	36,450			0.5
Trade receivable	305,000			0.5
Insurance claim receivable ($284,000 × 90%)	255,600	597,050		0.5
Less: Current liabilities				
Trade payable	225,000			0.5
Accrued administrative expense	22,500			0.5
Accrued selling and distribution expense	26,000			0.5
Bank overdraft	222,950	496,450		0.5
Net current assets			100,600	
			884,770	
Financed by:				
Capital and reserves				
Ordinary share capital			600,000	0.5
General reserve ($100,000 + $20,000)			120,000	0.5
Retained profit ($143,187 + $41,583 – $20,000)			164,770	0.5
			884,770	

(6 marks)

Workings:

Machinery

2020		$	2020		$
	Balance b/d	730,000		Balance c/d	1,010,000
	Bank	280,000			
		1,010,000			1,010,000

Accumulated depreciation : Machinery

2020		$	2020		$
	Balance c/d	225,830		Balance b/d	138,700
				Depreciation expense	87,130
		225,830			225,830

Administrative expense

2020		$	2020		$
	Prepaid b/d	38,950		Profit and loss (bal. fig)	208,970
	Bank	147,520			
	Accrued c/d	22,500			
		208,970			208,970

Selling and distribution expenses

2020		$	2020		$
	Bank	120,330		Accrued b/d	44,038
	Accrued c/d	26,000		Profit and loss (bal. fig)	102,292
		146,330			146,330

Trade receivable

2020		$	2020		$
	Balance b/d	225,850		Bank	799,850
	Sales (bal. fig)	879,000		Balance c/d	305,000
		1,104,850			1,104,850

Trade payable

2020		$	2020		$
	Bank (bal. fig.)	987,500		Balance b/d	350,000
	Balance c/d	225,000		Purchases	862,500
		1,212,500			1,212,500

Bank

2020		$	2020		$
	Balance b/d	62,550		Trade payable	987,500
	Sales	450,000		Administrative expense	147,520
	Trade receivable	799,850		Selling and distribution expenses	120,330
	Balance c/d	222,950		Machinery	280,000
		1,535,350			1,535,350

(c)

		2019		2020	
(i)	Current ratio				
		= $645,925 ÷ $394,038 = 1.64 : 1	0.5	= $597,050 ÷ $496,450 = 1.20 : 1	0.5
(ii)	Acid test ratio				
		= ($645,925 – $318,575) ÷ $394,038 = 0.83 : 1	0.5	= ($597,050 – $36,450) ÷ $496,450 = 1.13 : 1	0.5
(iii)	Returns on capital employed (ROCE)				
		= $32,250 ÷ $843,187 × 100% = 3.82%	0.5	= $41,583 ÷ $884,770 × 100% = 4.70%	0.5
(iv)	Trade receivable collection period				
		= $225,850 ÷ $770,000 × 365 days = 107.06 days	0.5	= $305,000 ÷ $879,000 × 365 days = 126.65 days	0.5

(4 marks)

Comment on liquidity

The current ratio of Supra limited in 2020 is lower than 2019.	0.5
The trade receivable collection period in 2020 takes longer time to collect the debts which implies that the liquidity is worse than that of 2019.	Any one 1
The acid-test ratio in 2020 is higher than 2019 because the one-off compensation receivable and the abnormal stock loss reduces the amount of inventory in 2020 affected the acid-test ratio in 2020.	
As a conclusion, the liquidity of Supra limited is actually deteriorated and may have difficulty in paying its short-term liabilities when due.	0.5

(2 marks)

<Total: 20 marks>

~ End of paper ~