HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AND

HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2023/24

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES MOCK E×AMINATION

PAPER 2A ACCOUNTING MODULE

SUGGESTED ANSWER

SECTION A (24 marks, weighting 30%)

Question 1

(a) General journal 1

(1 mark)

(b) Matching principle 1
- Links revenue with its relevant expense or costs 1
- The use of lorry could generate revenue for the business, the cost of the lorry should therefore be allocated over its estimated useful life as an expense. 1

(3 marks)

(c)

Cleaning expenses

	2023		$	2023		$	
0.5	Sep 30	Balance b/d	143,000	Sep 30	Profit and loss	156,000	0.5
		Accrued c/d	13,000				
			156,000			156,000	

Rent income

	2023		$	2023		$	
0.5	Sep 30	Rental deposit	30,000	Sep 30	Balance b/d	60,000	0.5
0.5		Profit and loss ($12,500 × 8)	100,000		Trade receivable - Mr. Wong ($15,000 × 5)	75,000	1
0.5		Unearned/ Deferred c/d	5,000				
			135,000			135,000	

(4 marks)

<Total: 8 marks>

Workings:

Monthly rental income
= $60,000 ÷ 4
= $15,000

Total months income received
= 24 months – 4 months
= 20 months

Total rental income to be received
= 20 months × $15,000
= $300,000

Amortised monthly rental income
= $300,000 ÷ 24 months
= $12,500

Question 2

(a)

Mr. Hope
Statement of financial position as at December 2022

	$	$		
ASSETS	$	$		
Non-current assets				
Machinery		508,800		
Motor vehicles		763,200	(1)	1
		1,272,000		
Current assets				
Inventory	265,000			
Trade receivables (w1)	128,125		(2)	1
Bank (balancing figure)	4,375	397,500	(3)	1
Total assets		1,669,500		
CAPITAL AND LIABILITIES				
Capital				
Capital introduced during the year		1,102,125	(4)	1
Add: Net profit for the year		205,000		
		1,307,125		
Less: Drawings		2,000		
		1,305,125	(5)	1
Non-current liabilities ($165,625 × 1.2)		198,750	(6)	1
Current liabilities				
Trade payables (w2)		165,625	(7)	1
Total capital and liabilities		1,669,500		

(7 marks)

Workings:

(w1)
Net profit margin:
Net profit ÷ Net Sales × 100% = 40%
$205,000 ÷ Net Sales × 100% = 40%
Net Sales = $512,500 (all sales made on credit)

Trade receivables collection period:
Trade receivables balance ÷ Total credit sales × 12 = 3 months
Trade receivables balance ÷ $512,500 × 12 = 3 months
Trade receivables balance = $128,125

(w2)
Quick ratio:
Current assets excluding inventory ÷ Current liabilities = 0.8 : 1
(Current assets – \$265,000) ÷ Current liabilities = 0.8
Current assets = 0.8 Current liabilities + 265,000

Current ratio:
Current assets ÷ Current liabilities = 2.40 : 1
(0.8 Current liabilities + 265,000) ÷ Current liabilities = 2:40
0.8 Current liabilities + \$265,000 = 2.4 Current liabilities
\$265,000 = 2.4 Current liabilities – 0.8 Current liabilities
1.6 Current liabilities = 265,000
Current liabilities = \$165,625 (i.e. Trade payables)

Current assets
= 0.8 Current liabilities + 265,000
= 0.8 × \$165,625 + 265,000
= \$397,500

(b)

Limitation of accounting ratios:
- Accounting information is past results which are **not timely** information. It may be irrelevant to **predict the future** development.
- Ratios are based on historical costs where **inflation** is ignored. It may be misleading to **assess/evaluate the current** performance.
- It also **ignores qualitative information**, for instance, corporate governance, customer loyalty and morale of employees which are crucial to evaluate business success.

(Any one of the above, 1 mark max.)

(1 mark)

<Total: 8 marks>

Question 3

(a)

High-low method

Variable cost $= \dfrac{\$33,000 - \$18,000}{40,000 - 10,000}$

$= \dfrac{\$15,000}{30,000}$

$= \underline{\underline{\$0.5/\text{unit}}}$ 1

Fixed cost = $33,000 – 40,000 × $0.5
= $33,000 – $20,000
= $\underline{\underline{\$13,000}}$ 1

OR

Fixed cost = $18,000 – 10,000 × $0.5
= $18,000 – $5,000
= $\underline{\underline{\$13,000}}$

(2 marks)

(b)

i.

	Deluxe		Super		Standard		
	$	$	$	$	$	$	
Selling price		35.00		20.0		16.0	
Less: Direct material	10.00		8.0		7.0		
Direct labour cost	16.25		6.5		5.0		
Semi-variable production cost	0.50	26.75	0.5	15.0	0.5	12.5	
Unit contribution margin		8.25		5.0		3.5	
Direct labour hour per unit		$^1/_4$		$^1/_{10}$		$^1/_{13}$	
Unit contribution margin per direct labour hour		33.00		50.0		45.5	1.5@
Ranking		3		1		2	

ii.

	Number of direct labour hour	Production level	
Super	1,200 hours	12,000	0.5
Standard	1,400 hours	18,200	0.5
Deluxe	900 hours	3,600	0.5

(6 marks)

<Total:8 marks>

SECTION B (24 marks, weighting 45%)

Question 4
(A)

(a) i.
Annual fixed production overheads:
= $10,000 × 12 + $33,000
= $153,000 0.5

Direct labour hours:
= (21,600 × 5 + 5,625 × 8) / 60
= 2,550 hours 0.5

The predetermined fixed production overhead absorption rate: OR
= $153,000 / 2,550
= $60 per direct labour hour 1

(a) ii.

	Cookies	Fruit tarts	
	$	$	
Direct materials	3.5	9.0	
Direct labour	2.0	3.0	
Variable production overheads	1.5	5.0	
Fixed production overheads	5.0	8.0	0.5
Unit production cost	12.0	25.0	0.5

Fixed production overheads = 5 and 8 × (ai) answer ÷ 60

(2 marks)

(b)

Statement to calculate profit or loss on the special order

	$	$	
Special order price		50,000	
Less: Variable Production Cost:			
- Cookies [(3.5 + 2 + 1.5) × 4,000]	28,000		0.5
- Fruit tarts [(3 + **9**×2/3×(1- 15%) + 3 + 5 +**2**) × 1,000]	18,100		1
Incremental cost:			
- Cookie mould	500		0.5
- Extra manpower	1,500		0.5
Opportunity Cost (Workings)	2,200	50,300	1.5
Net Loss		(300)	

Since there is net loss after accepting the special order price, Mark and Venus should not accept it. 1

(5 marks)

Workings:

Remaining production time
= 250 hours × 12 – 2,550 hours
= 450 hours or 27,000 minutes

Special order production time
= (4,000 × 5 + 1,000 × 8) ÷ 60
= 466.67 hours or 28,000 minutes

Deficient time: 16.67 hours or 1,000 minutes 0.5

	Cookies	Fruit tarts	
	$	$	
Selling price (markup 50%)	18.0	37.5	
Direct materials	(3.5)	(9.0)	
Direct labour	(2.0)	(3.0)	
Variable production overheads	(1.5)	(5.0)	
Contribution margin per piece	$\boxed{11}$	20.5	0.5
Direct labour hours per unit	5 minutes	8 minutes	
Contribution per direct labour hour	$132	$153.75	

Since the contribution margin per direct labour hour of cookies is less than fruit tarts, so:
Opportunity cost
= 1,000 minutes ÷ 5 minutes × $11.0 contribution margin per cookies
= $2,200

(B)

(c)

Mary
Statement to calculate the value of inventory as at 30 June 2023

	$	$	
Value of inventory as at 6 July 2023		355,000	0.5
Add: (ii) Sales, 1–6 July 2023 [$80,000 ÷ (1 + ⅓)]		60,000	0.5
(iii) Returns inwards [$4,000 ÷ (1 + ⅓)]		3,000	0.5
		418,000	
Less: (i) Purchases, 3 July 2023 ($50,000 × 90%)	45,000		0.5
(iv) Free samples from the suppliers	89,000		0.5
(v) Goods written down to net realizable value	1,250		
($24,000 – $22,750)			1
(vi) Drawings of goods [$27,600 ÷ (1 + ⅓)]	20,700	155,950	1
Value of inventory as at 30 June 2023		262,050	0.5

(5 marks)

<Total:12 marks>

Question 5

(A)

(a)

Bank account

	2023		$	2023		$	
	Sep 30	Balance b/d	220	Sep 30	(ii) Suspense	1,820	0.5
0.5		Rates	800		Drawings	5,000	0.5
0.5		Trade payables - Ma	90		(iii) Trade receivables - Sit	2,000	0.5
0.5		Dividends income	4,000		Management fee	1,850	0.5
0.5		Balance c/d	5,560				
			10,670			10,670	

(4 marks)

(b)

Wookie Company
Bank reconciliation statement as at 30 September 2023

	$	$	
Adjusted balance as per bank account		(5,560)	
Add (i) Unpresented cheques – 14459	750		0.5
– 14471	1,460		0.5
(i) Bank error – incorrect debit (cheque number 14376)	1,100	3,310	0.5
		(2,250)	
Less Uncredited deposit		2,680	0.5
Balance as per bank statement		(4,930)	

(2 marks)

<u>For reference:</u>

Wookie Company
A statement showing the reconciliation of the opening balance as at 1 September 2023

	$	$
Balance as per bank account		910
Add: Unpresented cheque – 14450 (was presented on 3 September 2023)	900	
Unpresented cheque – 14459 (Note i)	750	
Bank error – incorrect debit (cheque number 14376) (Note i)	1,100	2,750
		3,660
Less: Correction of error: the credit opening balance was mistakenly brought down as a debit balance (Note ii)		1,820
Balance as per bank statement		1,840

(c)

- The cheque of $2,000 dated 9 October 2023.
- The cheque received and deposited in the cheque deposit machine on 10 September 2023.
- The cheque was returned by the bank on 12 September 2023.
- The cheque mentioned in Note (iii).

(1)

(1 mark for any relevant description)

(1 marks)

(B)

(d)

Unit production cost

	$
Prime cost ($1,305,000 ÷ 90,000)	14.50
Variable production overheads ($315,000 ÷ 90,000)	3.50
Fixed production overheads ($360,000 ÷ 90,000)	4.00
	22.00

John Ltd
Income statement
for the year ended 31 December 2022

	$	$	
Sales ($28 × 100,000)		2,800,000	0.5
Less: Cost of goods sold			
Opening inventory ($22 × 33,000)	726,000		0.5
Add: Cost of goods manufactured ($22 × 80,000)	1,760,000		0.5
	2,486,000		
Less: Closing inventory ($22 × 13,000)	286,000		0.5
	2,200,000		
Add: Fixed production overheads under-absorbed (w1)	60,000	2,260,000	0.5
Gross profit		540,000	
Less: Expenses			
Variable administrative and distribution costs ($5×100,000)	500,000		
Fixed administrative and distribution costs	100,000	600,000	0.5
Net loss		(60,000)	

(w1)

Fixed production overhead under-absorbed

= [$4 × (90,000 – 80,000)] + ($380,000 - $360,000) OR $380,000 - $4 × 80,000

(3 marks)

(e)

Statement to calculate the net profit under marginal costing
for the year ended 31 December 2022

	$	
Net loss under absorption costing	(60,000)	0.5
Add: Fixed production overheads absorbed in opening inventory ($4 × 33,000)	132,000	0.5
	72,000	
Less: Fixed production overheads absorbed in closing inventory ($4 × 13,000)	52,000	0.5
Net profit under marginal costing	20,000	0.5

(2 marks)

<Total:12 marks>

Question 6

(a)

Cash Book

			Discount	Cash	Bank			Discount	Cash	Bank	
			$	$	$			$	$	$	
	(i)	Balance b/d		88,000		(i)	Balance b/d			42,800	
0.5	(v)	Sales		645,000		(ii)	Trade payable	28,000		740,000	0.5
	(v)	Cash			560,000	(iii)	Operating expenses			360,000	0.5
0.5+0.5	(vi)	Trade receivable (balancing figure)	**17,000**		**833,000**	(iii)	Selling and distribution expenses			200,000	
						(iv)	Salaries		48,000		0.5
						(v)	Drawings		60,000		
						(v)	Operating expenses		25,000		0.5
						(v)	Bank		560,000		
							Cash loss (balancing figure)		40,000		0.5
							Balance c/d			50,200	
			17,000	733,000	1,393,000			28,000	733,000	1,393,000	

(4 marks)

Workings:

(w1)

Trade receivable

	$		$
Balance b/d	240,000	Bank	**833,000**
Sales (balancing figure)	1,290,000	Discounts allowed ($833,000 ÷ 98% × 2%)	**17,000**
		Balance c/d	680,000
	1,530,000		1,530,000

(w2)

Trade payable

	$		$
Bank	740,000	Balance b/d	128,000
Discounts received	28,000	Purchases (balancing figure)	830,000
Balance c/d	190,000		
	958,000		958,000

(w3)

Operating expenses

	$		$
Balance b/d	12,600	Profit and loss (b.f.)	372,600
Bank	360,000	Balance c/d	25,000
Cash	25,000		
	397,600		397,600

(w4)

Selling and distribution expenses

	$		$
Bank	200,000	Balance b/d	65,000
		Profit and loss (b.f.)	105,000
		Balance c/d	30,000
	200,000		200,000

(b)

Tom
Income statement for the year ended 31 December 2022

	$	$	
Sales ($645,000 + $1,290,000)		1,935,000	0.5+0.5
Less: Cost of goods sold			
Opening inventory	100,000		0.5
Add: Purchases (w2)	830,000		1
	930,000		
Less: Closing inventory	140,000		0.5
	790,000		
Less: Inventory loss (balancing figure)	80,500	709,500	0.5
Gross profit (w5)		1,225,500	0.5
Add: Discounts received		28,000	0.5
		1,253,500	
Less: Expenses			
Discounts allowed	17,000		0.5
Cash loss [$40,000 × (1 – 40%)]	24,000		0.5
Inventory loss [$80,500 × (1 – 60%)]	32,200		0.5
Operating expenses (w3)	372,600		0.5
Selling and distribution expenses (w4)	105,000		0.5
Salaries	48,000	598,800	0.5
Net profit		654,700	0.5

(8 marks)

Workings:
(w5)
Gross profit
= $645,000 × 70% + $1,290,000 × 60%
= $451,500 + $774,000
= $1,225,500

<Total:12 marks>

SECTION C (20 marks, weighting 25%)

Question 7

(a)

General Journal

Date	Details	Dr $	Cr $	
Dec 31				
(vii)	Bank	350,000		0.5
	12% Debentures		350,000	0.5
	Finance costs – Debenture Interest	38,500		0.5
	Suspense ($350,000 × 12% × ½)		21,000	0.5
	Accrued Expenses ($350,000 × 12% × $^{5}/_{12}$)		17,500	0.5
(viii)	General reserve	300,000		0.5
	Ordinary share capital		250,000	0.5
	Application monies refundable / payable		50,000	0.5

(4 marks)

(b) i.

Faith Limited

Income statement for the year ended 31 December 2022

	$	$	
Sales [$865,000 - $16,000 × 150%(ii) - $3,000 (iv)]		838,000	0.5
Less: Cost of goods sold			
Opening inventory	72,000		0.5
Add: Purchases [($210,900 + $39,000 × $^{3}/_{5}$ (i)]	234,300		0.5
	306,300		
Less: Closing inventory	85,400	220,900	0.5
[$85,000 - $39,000 × $^{2}/_{5}$ (i) + $16,000(ii)]			
Gross profit		617,100	
Less: Expenses			
Selling and distribution expenses	97,600		1
[$85,600 - $3,000 (iv) + $15,000 (v)(wk1)]			
Administrative expenses	288,200		1
[$28,700 + $260,000 (vi) - $500 (vi)(wk2)]			
Finance costs [$350,000 × 12% × $^{11}/_{12}$ (vii)]	38,500	424,300	0.5
Net profit before tax		192,800	
Less: Taxation		13,000	0.5
Net profit after tax		179,800	

(5 marks)

(b) ii.

Faith Limited
Statement of financial position as at 31 December 2022

	$	$	
ASSETS			
Non-current assets			
Office equipment ($760,000 + $360,000 - $24,000)	1,096,000		
Less: Accumulated depreciation [$427,500 + $260,000 - $14,500 (vi)] (w2)	673,000	423,000	1
Current assets			
Inventory	85,400		0.5
Trade receivables [$348,000 - $34,500 (v)]	313,500		0.5
Loan to a director	430,000		0.5
Bank	98,000	926,900	0.5
		1,349,900	
EQUITY AND LIABILITIES			
Capital and reserves			
Ordinary share capital [$360,000 + $250,000 (viii)]		610,000	0.5
Retained profits (w3)		162,000	1.5
General reserve [$310,000 - $300,000 (viii) + $16,000 (ix)]		26,000	0.5
		798,000	
Non-current liabilities			
12% Debenture (vii)		350,000	0.5
Current liabilities			
Trade payables ($62,000 + $23,400 (i))	85,400		0.5
Application monies refundable / payable (viii)	50,000		0.5
Tax payable (x)	13,000		0.5
Dividend payable (ix)	12,000		0.5
Unearned Revenue (ii)	24,000		0.5
Accrued expenses (vii)	17,500	201,900	0.5
		1,349,900	

(9 marks)

(c)
If the board of directors declares dividends to its shareholders **after the reporting period (i.e., financial year), (1)** it should not recognize these dividends as a liability at the end of the reporting period. This is because these dividends do not **meet the criterion of a present obligation. (1)**

(2 marks)

<Total:20 marks>

Workings:

(w1)

Allowance for doubtful accounts

	$		$
Balance c/d [($348,000 - $18,000)×5% + $18,000]	34,500	Balance b/d	19,500
		Selling and distribution expenses – bad debt expenses	15,000
	34,500		34,500

(w2)

Cost of existing office equipment disposed: $24,000

Accumulated depreciation of the existing office equipment at the date of disposal:

= $24,000 × 29/48

= $14,500

Profit on disposal:

= ($360,000 - $350,000) – ($24,000 - $14,500)

= $500

Depreciation for the year:

= ($760,000 - $24,000) × 12/48 + $24,000 × 2/48 + $360,000 × 10/48

= $184,000 + $1,000 + $75,000

= $260,000

(w3)

Faith Limited

Statement to calculate the retained profit for the year ended 31 December 2022

	$	$	
Retained profit b/d		40,200	
Add: Profit after tax		179,800	
		220,000	
Less: Transfer to general reserve (ix)	16,000		0.5
Dividend – 2021 final	10,000		0.5
– 2022 interim	20,000		
– 2022 third-quarter [240,000× $0.05 (ix)]	12,000	58,000	
Retained profit c/d		162,000	

Question 8

(a) Error of principle 1

(1 mark)

(b)

Appropriation account for the year ended 31 December 2022

	$	$	
Net profit		41,740	3
Add: Interest on drawings			
- Yvonne ($50,000 × 6% × $^2/_{12}$)	500		0.5
- Mary ($32,000 × 6% × $^8/_{12}$)	1,280	1,780	0.5
		43,520	
Less: Partners' salaries – Mary ($4,800 × 7)		33,600	0.5
		9,920	
Share of residual profit:			
- Mary ($^2/_5$)	3,968		
- Avery ($^1/_5$)	1,984		0.5
- Yvonne ($^2/_5$)	3,968	9,920	
		9,920	

(5 marks)

Workings:

	$	$	
Net loss before interest and appropriation		(62,200)	
Add: Returns outwards under-casted	820		0.5
Salaries to Mary wrongly included ($4,800 × 5)	24,000		0.5
Repairs expense wrongly charged	100,000	124,820	0.5
		62,620	
Less: Bad debts expense ($2,600 x 5%)	130		0.5
Depreciation – Premises ($100,000 × 20%)	20,000		0.5
Loan interest expense (3% × $25,000)	750	20,880	0.5
Adjusted profit		41,740	

Current

	Mary $	Avery $	Yvonne $		Mary $	Avery $	Yvonne $
Balance b/d		5,080	320,572	Balance b/d	183,000		
Drawings	32,000		50,000	Appropriation			
Profit and loss	24,000			- partners' salary	33,600		
(Wages and salaries)				- share of profit	3,968	1,984	3,968
Appropriation:				Capital – Avery		3,096	
- interest on drawings	1,280		500	Capital – Yvonne			367,104
Capital – Mary	163,288						
	220,568	5,080	371,072		220,568	5,080	371,072

(c)

Realisation

		$		$	
0.5	Furniture and fittings	800,000	Bank		
	Inventory	8,700	- Premises	2,000,000	0.5
0.5	Premises	1,480,000	- Furniture and fittings	215,870	0.5
	($1,400,000 + $100,000 – $20,000)		- Trade receivables	27,835	0.5
0.5	Trade receivables		(3/4 × $29,300 + 1/4 × $29,300 × 80%)		
	($26,700 + 2,600 – [545+130])	28,625	Capital – Mary		
0.5	Bank - Commission expense	40,000	- Furniture and fittings	300,000	0.5
	Capital – Mary		Trade payables (Discounts received)	600	0.5
0.5	(Realisation expense)	3,800	3% Loan from Avery (Inventory)	8,700	0.5
	Gain on realisation:		Accrued interest expense	750	0.5
	Capital – Mary (2/5)	77,052			
1	Capital – Avery (1/5)	38,526			
	Capital – Yvonne (2/5)	77,052			
		2,553,755		2,553,755	

(7 marks)

(d)

Capital

		Mary $	Avery $	Yvonne $		Mary $	Avery $	Yvonne $	
0.5	Current – Avery		3,096		Balance b/d	900,000	700,000	200,000	0.5
0.5	Current – Yvonne			367,104	Current – Mary	163,288			0.5
	Realisation:				Realisation (expense)	3,800			0.5
0.5	(furniture and fittings)	300,000			Realisation (gain)	77,052	38,526	77,052	0.5
0.5	Capital – Yvonne	56,000	28,000		Bank			6,052	0.5
0.5@	Bank (final settlement)	788,140	707,430		Capital – Mary			56,000	0.5
					Capital – Avery			28,000	
		1,144,140	738,526	367,104		1,144,140	738,526	367,104	

(6 marks)

Workings:

Bank

	$		$
Realisation:		Balance b/f	663,487
- Premises	2,000,000	Realisation:	
- Furniture and fittings	215,870	- Commission expense	40,000
- Trade receivables	27,835	Trade payables	34,400
Capital – Yvonne	6,052	3% Loan from Avery	16,300
		Capital – Mary (final settlement)	788,140
		Capital – Avery (final settlement)	707,430
	2,249,757		2,249,757

Reference for eliminating suspense account:

Suspense

	$		$
Balance b/d	1,780	Trade receivables (2)	2,600
Profit and loss – returns outwards (1)	820		
	2,600		2,600

(e)

Advantage of adopting fixed capital method:

- Debit balances separately shown in the partners' current accounts (which may be due to partners' excessive drawings) will be regarded as a signal or deficiency-warning to the partners.

- Initial investment will be shown in the partners' capital accounts and will not be affected. It is because all transactions between partners and the partnership will be shown in the partners' current accounts instead of their capital accounts.

(Any one of the above, 1 mark max.)

(1 mark)

<Total:20 marks>

~ End of Paper ~