

Fanling Lutheran Secondary School

2021-2022 First Term Uniform Test

S6 BUSINESS, ACCOUNTING & FINANCIAL STUDIES

QUESTION-ANSWER BOOK

November 22, 2021

Time allowed: 1 hour 30 minutes

Instructions:

1. This paper consists of 10 pages.
2. Full marks of this paper is 110.
3. Write your Name, Class, Class No., Seat No. and Group No. in the spaces provided on Page 1.
4. This paper must be answered in English.
5. Write your answer in the spaces provided in this Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.
6. Supplementary answer sheets will be provided on request. Write your Class Number, mark the question number box and staple them to this Question-Answer Book.

Name :	
Class :	()
Seat No. :	

Question No.	Marker's Use Only	
Section A		
Section B		
1		
2		
Section C		
1		
2		
3		
Total		

Section A (30 marks)

1. Which of the following is the main use of a company's financial statements to potential investors?
- A. To evaluate the company's repayment ability
 - B. To forecast the company's profitability
 - C. To comply with legal requirements
 - D. To assess job security

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2. Below are some of the tasks in the accounting cycle. Arrange them in sequence.

- (1) Recording transactions in the books of original entry
 - (2) Preparing financial statements
 - (3) Preparing period-end adjustments
 - (4) Preparing a trial balance
- A. (1) → (2) → (3) → (4)
 - B. (1) → (3) → (4) → (2)
 - C. (1) → (4) → (3) → (2)
 - D. (4) → (1) → (3) → (2)

☐

3. Non-current assets are listed in the statement of financial position

- A. in order of durability.
- B. in order of liquidity.
- C. in alphabetical order.
- D. in order of amount.

☐

4. The following are some accounting tasks:

- (i) Keeping separate records for revenues, expenses, resources owned by the firms and amounts owed to others
- (ii) Explaining the key points to different stakeholders of a business

Which of the following accounting functions are being performed?

- (1) Communicating
 - (2) Classifying
 - (3) Recording
 - (4) Summarising
- A. (1) and (2) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (3) and (4) only

☐

5. Which of the following about nominal accounts are not correct?

- (1) They would not be shown in the trial balance.
 - (2) They would not be shown in the income statement.
 - (3) They include personal accounts.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

☐

6. If an account has a debit balance, which of the following statements about the account is/are correct?
- (1) The account must be an asset account.
 - (2) The balance carried down must appear on the right-hand side of the account.
 - (3) The total of the debit entries in the account must be greater than the total of the credit entries.
- A. (2) only
B. (3) only
C. (2) and (3) only
D. (1), (2) and (3)
- ☐
7. Which of the following statements about the limitations of financial statements is correct?
- A. Time value of money is ignored.
 - B. Accounting information mainly reflects future transactions and events.
 - C. Accounting information is mostly qualitative.
 - D. Its preparation does not involve personal judgments.
- ☐
8. Which of the following accounting concepts cannot be applied in the situation listed to its right?
- | Concept | Situation |
|--------------------|--|
| A. Accrual | The expenses prepaid in the previous year have been recorded in the financial statements of the current year. |
| B. Business entity | A vehicle used by an owner that came from his family is not recorded as an asset of his firm. |
| C. Consistency | The same method is used to record similar items across different periods. |
| D. Going concern | The current market price of an asset is shown on the statement of financial position when the company has to liquidate within one month. |
- ☐
9. With other figures remaining unchanged, which of the following will cause a fall in the gross profit ratio?
- A. An increase in drawings
 - B. A decrease in discounts received
 - C. An increase in carriage inwards
 - D. An increase in purchases returns
- ☐

Based on the following information, answer Questions 10 and 11.

Jason Lam started a firm on 1 January 2019. Sales and purchases for the year ended 31 December 2019 amounted to \$120,000 and \$66,000, respectively. The gross profit ratio and net profit ratio for the year were 50% and 10%, respectively.

10. The firm's inventory as at 31 December 2019 amounted to:
- A. \$6,000
 - B. \$12,000
 - C. \$54,000
 - D. \$60,000
- ☐
11. The firm's expenses for the year ended 31 December 2019 amounted to:
- A. \$12,000
 - B. \$48,000
 - C. \$54,000
 - D. \$60,000
- ☐

12. Linda Chan is a sole trader. What is/are the purpose(s) for her to prepare a trial balance for her business?
- (1) Check the arithmetical accuracy of accounting entries.
 - (2) Report the financial position of her business.
 - (3) Record the business transactions of her business.
- A. (1) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)
13. Which of the following statements about cash discounts that a business offers are correct?
- (1) They are given to encourage customers to pay by cash.
 - (2) They should be recorded in the accounting records.
 - (3) They should be treated as business expenses.
- A. (1) and (2) only
 B. (1) and (3) only
 C. (2) and (3) only
 D. (1), (2) and (3)
14. Which of the following should be recorded on the debit side of the respective accounts?
- | | <u>Account</u> |
|-----------------------------------|-------------------|
| (1) Increase in trade receivables | Trade receivables |
| (2) Decrease in trade payables | Trade payables |
| (3) Increase in drawings | Drawings |
- A. (2) only
 B. (3) only
 C. (1) and (3) only
 D. (1), (2) and (3)
15. Given the following balances of Brett Co for the year ended 30 September 2019:
- | | \$ |
|--------------------------|---------|
| Opening inventory | 10,000 |
| Sales | 280,000 |
| Purchases | 140,000 |
| Carriage inwards | 900 |
| Carriage outwards | 6,000 |
| Returns inwards | 1,500 |
| Other operating expenses | 65,000 |
- Given that closing inventory was half the amount of opening inventory. Net profit for the year amounted to:
- A. \$43,500
 B. \$51,500
 C. \$61,600
 D. \$67,500

END OF SECTION A

Section B (30 marks)

1. The following transactions of Rocky's firm took place in November 2020 :

- Nov 8 Purchased goods from Joseph for \$30,000 on credit.
Nov 20 Sold goods to Lawrence on credit with a list price of \$21,000. A trade discount of 2% would be offered for sales orders over \$10,000 and a cash discount of 5% for settlements within 10 days after purchase.
Nov 21 Took goods costing \$11,000 for Rocky's private use.
Nov 29 Lawrence settled the account by cheque

With reference to the accounts listed below :

(1) Purchases account; (2) Joseph account; (3) Sales account; (4) Lawrence account; (5) Drawings account; (6) Discounts allowed / Discounts received account; (7) Cash at bank account

Prepare appropriate T-accounts to record the above transactions for Rocky's firm. Balancing off the accounts is not required.

(Total 10 marks)

Purchases

	\$		\$

Joseph

	\$		\$

Sales

	\$		\$

Lawrence

	\$		\$

Drawings

	\$		\$

	\$		\$

Cash at bank

	\$		\$

(b)

Kaiser's firm
Statement of Financial Position as at 31 December 2020

[illegible]

Section C (50 marks)

1. Juliana operates a manufacturing business which uses a machine for its production process. Fill in the blanks with the most suitable phrase :

variable cost	fixed cost	mixed cost
incremental cost	sunk cost	opportunity cost

- (a) The purchase price of the machine was \$100,000. When considering whether to sell the machine, the cost is a/an _____.
- (b) The current market value of the machine is \$25,000. When considering whether to continue using the machine, the market value is a/an _____.
- (c) The operator of the machine earns a monthly salary of \$10,000, plus wages of \$1 per unit produced when he uses the machine. The cost of hiring the operator is a/an _____.
- (d) Juliana hires a contractor to perform the maintenance work for the machine, which would cost \$7,000 every year. This cost is a/an _____.
- (e) The material cost of the machine to produce each unit is \$22. Material cost is a/an _____.

(Total 10 marks)

2. Jenny Company sells Product A at a uniform price of \$500 each. Information related to the production and sales of the product is shown below :

Direct materials	\$120 per unit produced
Direct labour	\$60 per unit produced
Variable production overheads	\$200 per unit produced
Annual demand	15,000 units
Fixed production overheads	\$120,000 per year
Fixed marketing expenses	\$300,000 per year
Sales commission	\$50 per unit sold

Required:

- (a) Calculate the contribution margin for each unit of the product.
- (b) Calculate the sales revenues of Product A at the breakeven point.
- (c) If the price of Product A is increased to \$700 per unit, it is estimated that the annual demand for the product would decrease to 12,000 units. Should Jenny Company increase the price? Show the calculations.

(Total 10 marks)

- (a) _____
- (b) _____
- (c) _____

- | | |
|---|----|
| | \$ |
| Direct labour per unit | 50 |
| Direct materials per unit | 90 |
| Variable manufacturing overheads per unit | 10 |

- (i) Actual production and sales level for the year 2019 were 20,000 units and 19,000 units, respectively.
- (ii) Selling price per unit of 'Andy' was \$360 per unit during 2019.
- (iii) Andy Co hired a salesperson who earned a monthly salary of \$40,000 and a commission of 10% of sales.
- (iv) Actual fixed manufacturing overheads for the year were also \$600,000.

- (a) Prepare the income statement for Andy Co for the year ended 31 December 2019 using the absorption costing system.
- (b) Prepare the income statement for Andy Co for the year ended 31 December 2019 using the marginal costing system.

(c) Should Andy Co accept the offer? Show your calculations.

(a)

[illegible]

(b)

Income statement for Andy Co for the year ended 31 December 2019

[illegible]

(c)

End of Paper