

Part 1 : Accounting cycle 會計循環

Ch. 1 Accounting equation, basic concepts & double-entry accounting

1. SP.P1A.Q21

Which of the following statements about accounting equation is INCORRECT?

- A. Assets – Liabilities = Capital
- B. Assets – Liabilities = Capital + Revenues – Expenses
- C. Non-current assets + Working capital = Capital + Non-current liabilities
- D. Non-current assets + Current assets = Capital + Non-current liabilities – Current liabilities

2. 2012.P1A.Q17

On 1 January 2012, Mr. Tong set up a firm and brought in motor vehicles of \$2000, premises of \$14 000 and inventory of \$5000 to the business. The firm borrowed \$3000 from the bank to acquire a piece of equipment. Meanwhile, Mr Tong put \$1000 into the firm’s cash box and \$8000 into the firm’s bank account.

What was the amount of Mr Tong’s capital on 1 January 2012?

- A. \$9 000
- B. \$27 000
- C. \$30 000
- D. \$33 000

Ch.2 Inventories

1. SP.P1A.Q18

Which of the following should NOT be classified as ‘Purchases’ by a motor van dealer?

- A. A motor van bought for showroom display
- B. A motor van bought for trial use by customers
- C. A motor van bought for use by the managing director
- D. A motor van bought to be used for staff transportation but finally put into the warehouse for resale

Ch.3 Balance-off accounts

*No relevant question yet*

Ch.4 Revenue, expenses & drawings

1. SP.P1A.Q23

The proprietor of a business draws cash from his private savings account to settle the amount owed to a creditor of the business. The ledger entries should be:

- A. Dr Accounts Payable account ..... Cr Bank account
- B. Dr Accounts Payable account ..... Cr Capital account
- C. Dr Drawings account ..... Cr Accounts Payable account
- D. Dr Drawings account ..... Cr Bank account

2. 2013.P1A.Q28

Which of the following double entries are correct?

	<u>Transactions</u>	<u>Account to be</u>	<u>Account to be</u>
		<u>debited</u>	<u>credited</u>
(1)	Withdrew \$20 000 cash from the bank account for business uses.	Drawings	Bank
(2)	Paid sundry expenses \$3000 in cash.	Sundry expenses	Cash
(3)	Received a bank loan of \$200 000 via the bank account.	Bank	Bank loan

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

Chapter 1-4 Integrated

1. SP.P1A.Q22

Which of the following accounts of BAFS Limited will be credited when there is an increase in amount?

- (1) Electricity expense
- (2) Loan from XYZ Company
- (3) Loan to ABC Company
- (4) Purchases returns
- (5) Rent received
- (6) Sales returns

- A. (1), (2) and (4) only
- B. (1), (3) and (6) only
- C. (2), (4) and (5) only
- D. (3), (5) and (6) only

2. PP.P1A.Q6

Which of the following double entries are correct?

<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1) goods purchased in cash	<i>Purchases</i>	<i>Cash</i>
(2) goods returned by a customer	<i>Returns inwards</i>	<i>Trade payables</i>
(3) cash deposited into the bank account	<i>Bank</i>	<i>Cash</i>
(4) inventories withdrawn for owners' private use	<i>Drawings</i>	<i>Capital</i>

- A. (1) and (3) only
- B. (1) and (4) only
- C. (2) and (3) only
- D. (2) and (4) only

3. PP.P1A.Q9

Which of the following transactions would have the same effect on the balances of asset and liability of a firm?

- A. Receiving a cheque of \$1200 from a customer
- B. Receiving a loan of \$2500 in cash, of which \$500 is used to pay rent on the proprietor's residence
- C. Paying office expenses of \$2000 in cash
- D. Buying office equipment for \$1000 and paying the vendor 3 months later

4. 2012.P1A.Q3

Which of the following accounts must be in debit balances on a trial balance?

- (1) Short term loans
- (2) Inventories
- (3) Bank
- (4) premises

- A. (1) and (3) only
- B. (1) and (4) only
- C. (2) and (4) only
- D. (2), (3) and (4) only

5. 2012.P1A.Q16

Which of the following transactions will affect the total amount of liability of a business?

- A. assets introduced by the owner into the business
- B. goods sold to customers on credit
- C. machinery bought with its price settled two months later
- D. sales proceeds deposited into the business's bank account

6. 2013.P1A.Q9

King Lung Company owed Tin Tin Company \$56 000 on 1 December 2012. On 10 December 2012, Tin Tin Company sold goods costing \$80 000 at a gross profit margin of 50% to King Lung Company. On 15 December 2012, King Lung Company settled the beginning balance of the month with a cash discount of 3%. The balance of King Lung Company's account in Tin Tin Company's books as at 31 December 2012 would be:

- A. \$54 320 (credit balance)
- B. \$104 000 (debit balance)
- C. \$120 000 (credit balance)
- D. \$160 000 (debit balance)

Chapter 1-4 Integrated – Short Questions

7. 2005.Q2(A): (a) & (c)

For each of the following transactions, show the effects on the accounting equation (Assets = Liabilities + Capital) and the double entries required.

	Effects on the accounting equation	Entries required
<i>Example:</i> The proprietor paid \$6000 to a creditor from his own bank account	Increase capital Decrease liabilities	Debit: Creditors \$6000 Credit Capital \$6000
(a) The proprietor took from the business \$50 000 cash and a newly acquired motor van at its recorded cost of \$80 000.	?	?
(c) Sold goods for \$6400, for which \$3000 was received in cash and the balance was due in the following month.	?	?

**Ch.5 Trade discounts & cash discounts**

1. SP.P1A.Q24

On 14 February 20X7, Biz Company issued a sales invoice to Tsang Ltd for 40 units of goods at \$100 each, less 25% trade discount. Cash discount of 5% would be allowed for settlement within 7 days. Biz Company finally received the payment on 20 February 20X7.

Which of the following are the correct journal entries to be made in the books of Tsang Ltd for the above?

	Debit \$	Credit \$															
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Biz Company	3 000																
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2. PP.P1A.Q22

Which of the following statements is correct?

- A. Trade discounts are recorded as discounts allowed in the books.
- B. Cash discounts are enjoyed when large quantity of goods is purchased.
- C. Cash discounts are given encourage customers to settle debt within the credit period.
- D. Trade discounts are not entered in the sales journal.

**Ch.6 Trial Balance**

1. 2013.P1A.Q18

**Based on the following information, answer Questions 2013.P1A.Q18:**

The following were the account balances of King Kong Company as at December 2012:

	\$
Capital	199 800
Cash in hand	25 000
Cash at bank	?
Trade receivables	10 500
Trade payables	5 500
Sales	232 000
Purchases	108 000
Inventory as at 1 January 2012	15 000
Discounts allowed	5 600
Office equipment	280 000
Administrative expenses	32 000
Returns outwards	6 800
Commission received	8 700
Carriage inwards	4 500

What was the balance of the cash at bank account as at 31 December 2012?

- A. \$16 600
- B. \$27 800 (overdraft)
- C. \$30 200
- D. \$41 400 (overdraft)

**Ch.7 Income Statement / Trading, Profit & Loss account – Multiple Choice**

1. SP.P1A.Q25

The following is an extract from the trial balance of ACCT Company at the year ended 31 December 20X6:

	Dr	Cr
	\$	\$
Beginning inventories	5 500	
Carriage inwards	440	
Carriage outwards	660	
Purchases	73 000	
Returns	5 860	3 490
Sales		113 500

Given that the amount of ending inventories was twice the opening inventories, the cost of sales for 20X6 was \_\_\_\_\_.

- A. \$62 080
- B. \$64 010
- C. \$64 450
- D. \$64 670

2. 2013.P1A.Q14

Which of the following items are to be provided in the income statement of a business?

- (1) Profits earned during the accounting period
- (2) Air freight charges for senior managers attending overseas meetings
- (3) Trade discounts allowed to regular customers

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

3. 2013.P1A.Q19

The following were the account balances of King Kong Company as at 31 December 2012:

	\$
Capital	199 800
Cash in hand	25 000
Cash at bank	?
Trade receivables	10 500
Trade payables	5 500
Sales	232 000
Purchases	108 000
Inventory as at 1 January 2012	15 000
Discounts allowed	5 600
Office equipment	280 000
Administrative expenses	32 000
Returns outwards	6 800
Commission received	8 700
Carriage inwards	4 500

If the inventory as at 31 December 2012 was \$13 400, what would be the gross profit for the year?

- A. \$117 900
- B. \$122 400
- C. \$124 700
- D. \$129 200

4. PP.P1B.Q5(b)

Mr Cheung has a retailing firm. He knows little about book-keeping and has trouble preparing the financial statements for the firm. Based on the following information, prepare for his business the income statement for the year ended 31 December 2011. (6 marks)

	\$
Rent and rates	22 000
Salaries	31 000
Inventory (1 January 2011)	45 000
Inventory (31 December 2011)	38 000
Sales	188 000
Purchases	92 100
Returns inwards	5 500
Returns outwards	4 400
Carriage outwards	1 900
Discounts allowed	2 700

Ch.8 Balance Sheet/Statement of financial position – Multiple Choice

1. SP.P1A.Q19

A statement of financial position is \_\_\_\_\_.

- A. A list of debits and credits
- B. One of the accounts in the ledger
- C. Prepared to find out how much profit or loss was made during a period
- D. A statement of the outstanding balances after the preparation of the profit and loss account

Q2-Q3:

Refer to the following information for SP.Q26 & SP.Q28:

The following information relates to Island Company for the year ended 31 December 20X6:

	\$
Accounts payable	5 000
Accounts receivable	6 000
Bank loan (repayable in December 20X7)	11 500
Capital as at 31 December 20X5	36 200
Capital as at 31 December 20X6	44 200
Cash	1 000
Drawings of goods by the owner	6 400
Ending inventories	12 500
Introduction of capital during 20X6	20 000
Mortgage loan (repayable in 20Y1)	60 000
Net profit for the year	15 600
Plant and machinery	80 000

2. SP.P1A.Q26.

Island Company's working capital at 31 December 20X6 amounted to \_\_\_\_\_.

- A. \$1000
- B. \$3000
- C. \$12 500
- D. \$14 500

3. SP.P1A.Q28

The cash drawings by the owner during 20X6 amounted to \_\_\_\_\_.

- A. \$1200
- B. \$21 200
- C. \$27 600
- D. \$37 200

4. PP.P1A.Q28

The following are the account balances of Lily Ltd as at 31 December 2011:

	\$
Sales	20 000
Purchases	8 000
Discounts allowed	400
Discounts received	1 200
Rental income	1 600
Electricity expenses	3 700
Cash and bank	3 000
Accounts receivables	2 900
Accounts payables	4 000
Office equipment	15 000
Inventory (1 January 2011)	3 500
Capital (1 January 2011)	?

Inventory as at 31 December 2011 amounted to \$4200.

The amount of capital of Lily Ltd as at 1 January 2011 is:

- A. \$8 300
- B. \$9 700
- C. \$19 800
- D. \$33 700

5. PP.P1A.Q30

The current assets shown in the statement of financial position are arranged in order of

- A. significance, with the most important assets coming first and the least important assets coming last.
- B. value, with the most valuable assets coming first and the least valuable assets coming last.
- C. liquidity, with the least liquid assets coming first and the most liquid assets coming last.
- D. acquisition time, with the earliest acquired assets coming first and the latest acquired assets coming last.

6. 2012.P1A.Q22

On 31 December 2011, the amount of total current liabilities of a company is \$120 000 and its current ratio is 3:1. What was the amount of working capital of the company on the same date?

- A. \$40 000
- B. \$80 000
- C. \$240 000
- D. \$360 000

**Ch.8 Balance Sheet/Statement of financial position – Short Questions**

7. 2012.P1B.Q5(a)

The following account information relates to Yip's business for the year ended 31 December 2011:

	\$
Office equipment	220 000
Trade receivables	67 000
Opening inventory	34 000
Closing inventory	42 000
Bank overdraft	17 600
Trade payables	26 300
Loan from Sam's Company (repayable in 2020)	38 000
Opening capital	231 000
Sales	109 000
Purchases	76 100
Rent and rates	12 000
Salaries	9 000
Other operating expenses	7 900
Discounts received	4 100

Prepare the statement of financial position for Yip's business at 31 December 2011.

(5 marks)



**Accounting Cycle - MC**

1. 2012.P1A.Q14

Arrange the following tasks in the accounting cycle in sequence.

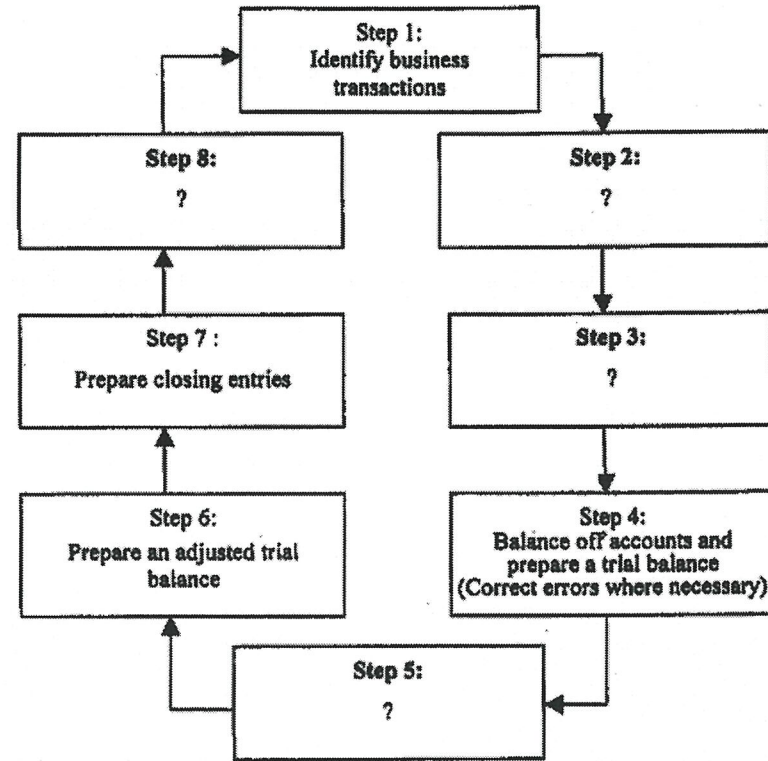
- (1) Prepare a trial balance
- (2) Prepare financial statements
- (3) Record transactions in day books
- (4) Post entries to the ledger accounts

- A. (3) → (4) → (2) → (1)
- B. (3) → (4) → (1) → (2)
- C. (4) → (3) → (2) → (1)
- D. (4) → (3) → (1) → (2)

**Accounting Cycle – Short Question**

2. 2005.Q2B

The steps in the accounting cycle are performed in sequence in each accounting period. Some of the steps of the accounting cycle are shown below:



You are required to:

State the four missing steps in the above accounting cycle.

(4 marks)

Part 1 : Accounting cycle

Ch. 1 Accounting equation, basic concepts & double-entry accounting

- 1. D
- 2. C

Ch.2 Inventories

- 1. C

Ch.4 Revenue, expenses & drawings

- 1. B    2. C

Chapter 1-4 Integrated - MC

- 1. C
- 2. A
- 3. D
- 4. C
- 5. C
- 6. D

Chapter 1-4 Integrated - SQ

2005.Q2(A):

(a)

Effects		Entries	\$	
Decrease assets	½	Debit: Capital/Drawings	130 000	½
Decrease capital	½	Credit: Cash	50 000	½
		Credit: Motor van	80 000	½

(c)

Increase assets	½	Debit: Cash	3 000	½
Increase capital	½	Debit: Debtors	3 400	½
		Credit: Sales	6 400	½

Ch.5 Trade discounts & cash discounts

- 1. C
- 2. D

Ch.6 Trial Balance

- 1. B

Ch.7 Income Statement / Trading, Profit & Loss account – Multiple Choice

- 1. C
- 2. A
- 3. C
- 4. PP.P1B.Q5(b)

Mr Cheung				
Income statement for the year ended 31 December 2011				
		\$	\$	
Sales			188 000	½
Less: Returns inwards			5 500	½
			<u>182 500</u>	
Less: Cost of goods sold				
Opening inventory		45 000		½
Add: Purchases		92 100		½
		<u>137 100</u>		
Less: Returns outwards		4 400		½
		<u>132 700</u>		
Less: Closing inventory		38 000	94 700	½
Gross Profit			<u>87 800</u>	
Less: Expenses				
Salaries		31 000		½
Rent and rates		22 000		½
Carriage outwards		1 900		½
Discount allowed		2 700	57 600	½
		<u>57 600</u>		
Net Profit			<u>30 200</u>	½

Ch.8 Balance Sheet/Statement of financial position – MC

1. D    2. B    3.B    4.B    5.C    6.C

Ch.8 Balance Sheet/Statement of financial position – Short Questions

7. 2012.P1B.Q5(a)

Statement of financial position as at 31 December 2011		
	\$	\$
<b>Non-current assets</b>		
Office equipment		220 000
		½
<b>Current assets</b>		
Inventory	42 000	½
Trade receivables	67 000	½
	<u>109 000</u>	
<b>Less: Current liabilities</b>		
Trade payable	(26 300)	½
Bank overdraft	<u>(17 600)</u>	½
	65 100	
<b>Less: Non-current liabilities</b>		
Loan from Sam's Company	<u>(38 000)</u>	½
	<u>247 100</u>	
<b>Financed by</b>		
Capital as at 1 January 2011	231 000	½
Add: Net profit	16 100	1
	<u>247 100</u>	

(Presentation: ½)  
(5)

Accounting Cycle - MC

1. B

Accounting Cycle – Short Question

2. 2005.Q2B

Step 2: Prepare journal/day book entries (*books of original entries*)

Step 3: Post to ledger accounts (*ledger entries*)

Step 5: Prepare adjusting entries (*year-end adjustments*)

Step 8: Prepare financial statements (*final accounts*)

Topics covered in Part 2:

Questions from past exam papers (Sample Paper to DSE 2013)

- A. Function of accounting / Use of accounting information
- B. Accounting Principles and concepts
- C. Basic ratio analysis
- D. HKCEE Questions on accounting Principles and concepts

**A: Function of accounting / Use of accounting information**

MC1. 2012.MC.Q20

Which of the following are functions of accounting?

- (1) evaluate business performance
- (2) facilitate business planning
- (3) enhance business competitiveness

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

MC2. 2013.MC.Q30

Which of the following are tasks of accounting?

- (1) classifying and recording business transactions
- (2) equipping the purchasing system with security measures
- (3) summarizing and reporting the performance of the company's sales periodically

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

MC3. 2012.MC.Q25

Which of the following are uses of a company's financial statements to respective users?

<u>Users</u>	<u>Uses</u>
(1) Managers	Help to reallocate the resources of the firm
(2) Debtors	Help to assess the repayment ability of the firm
(3) Potential investors	Help to decide whether the firm is worth investing in

- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

QA1. PP.Q5(a)

Give two reasons why businesses have to prepare financial statements. (2 marks)

QA2. 2012.Q1

Explain three limitations on the use of financial statements. (6 marks)

**B. Accounting Principles and concepts**

MC4. SP.MC.Q29

The going concern concept means that when preparing accounts, a firm is assumed to continue in operational existence for the foreseeable future \_\_\_\_\_.

- A. and will not cease trading
- B. and has no intention to liquidate
- C. but at a level of activity significantly less than the current level of activity
- D. and has no intention to liquidate or reduce significantly the scale of operation

MC5. SP.MC.Q30

Mr Chan, a sole trader, purchased a specialized machine for the business and paid the purchase invoice by a personal cheque. The machine was listed on the statement of financial position at its original cost of \$3 000 000 although it could only be realized for \$800 000 if the business was discontinued. Which of the following accounting concepts is NOT applicable to the above situation?

- A. accrual
- B. business entity
- C. going concern
- D. historical cost

MC6. PP.MC.Q10

Which of the following accounting concepts cannot be applied in the situation listed to its right?

<u>Accounting concept</u>	<u>Situation</u>
A. <i>Historical cost</i>	The market price of an asset is not shown on the statement of financial position.
B. <i>Business entity</i>	The vehicle used by the owner and his family is not recorded as an asset of his firm.
C. <i>Consistency</i>	The same method is used to record the same type of transaction in different companies.
D. <i>Accrual</i>	The expenses prepaid in the previous year have been recorded in the financial statements of the current year.

MC7. 2012.MC.Q27

Which of the following accounting principles and conventions has been violated if the owner of a restaurant charges the unpaid bills for meals with his family sometimes to the company's expense accounts but sometimes to his personal expense accounts?

- A. Accrual
- B. Business entity
- C. Consistency
- D. Going concern

MC8. 2013.MC.Q10

On 1 January 2012, Good Fortune Company signed a tenancy contract to rent an office for two years from 1 February 2012 to 31 January 2014. On the same day, it made a payment of \$208 000 to the landlord for the rent from February to March 2012 and a deposit equaled to two month's rent. The rental expense shown in the income statement for the year ended 31 December 2012 was:

- A. \$572 000
- B. \$624 000
- C. \$1 144 000
- D. \$1 248 000

QA3. 2012.Q6(a)

Peter was a sole proprietor running a small business without any employees. He bought a piece of equipment with a list price of \$56 000 for \$48 000 in February in February 2012. Peter then went bankrupt on 31 March 2012 and he decided to close the business. The market value of the equipment on the same date was \$38 000.

What is the valuation of the equipment as at 31 March 2012? Explain your answer with an appropriate accounting concept. (3 marks)

QA4. 2013.Q3

For each of the independent situations described below, state the accounting principle or concept that has been violated and give a brief explanation.

- (a) The owner of a firm, Mr Chan, bought a pearl necklace worth \$85 000 for his wife with a firm's cheque. The bookkeeper recorded the transaction as follows: (3 marks)

	Dr.	Cr.
	\$	\$
Sundry expenses	85 000	
Bank		85 000

- (b) The owner of a firm, Miss Lee, bought a notebook computer of \$12 000 for office use. She shared from the dealer that its market value at that time was \$14 000. The bookkeeper recorded the transaction as follows:

(3 marks)

	Dr.	Cr.
	\$	\$
Office equipment	14 000	
Bank		12 000
Gain on purchase of office equipment		2 000

C. Basic ratio analysis

MC9. Refer to the following information for Question SP.MC.Q27

The following information relates to Island Company for the year ended 31 December 20X6:

	\$
Accounts payable	5 000
Accounts receivable	6 000
Bank loan (repayable in December 20X7)	11 500
Capital as at 31 December 20X5	36 200
Capital as at 31 December 20X6	44 200
Cash	1 000
Drawings of goods by the owner	6 400
Ending inventories	12 500
Introduction of capital during 20X6	20 000
Mortgage loan (repayable in 20Y1)	60 000
Net profit for the year	15 600
Plant and machinery	80 000

Island Company's return on capital employed for 20X6 was \_\_\_\_\_.

- A. 19.40%
- B. 35.29%
- C. 38.81%
- D. 43.09%

MC10. PP.MC.Q29

The following are the account balances of Lily Ltd as at 31 December 2011:

	\$
Sales	20 000
Purchases	8 000
Discounts allowed	400
Discounts received	1 200
Rental income	1 600
Electricity expenses	3 700
Cash and bank	3 000
Accounts receivables	2 900
Accounts payables	4 000
Office equipment	15 000
Inventory (1 January 2011)	3 500
Capital (1 January 2011)	?

Inventory as at 31 December 2011 amounted to \$4200.

The gross profit ratio of Lily Ltd for 2011 is:

- A. 42.5%
- B. 56.5%
- C. 60%
- D. 63.5%

Based on the following information, answer 2013.MC.Q26 and 2013.MC.Q27:

	Lung Hing Company	Fat Tat Company
Turnover	\$45 000 000	\$52 000 000
Gross profit ratio	28%	25%
Net profit ratio	19%	22%
Current ratio	1.81 : 1	2.43 : 1
Liquid ratio	0.75 : 1	1.65 : 1

MC11. 2013.MC.Q26

Which of the following comments on the financial performance of Lung Hing Company as compared with Fat Tat Company is correct?

Lung Hing Company has

- A. Higher gross profit.
- B. Higher net profit.
- C. Higher cost of good sold.
- D. Higher operating expenses.

MC12. 2013.MC.Q27

Which of the following comments on the liquidity of Lung Hing Company as compared with Fat Tat Company is correct?

Lung Hing Company has

- A. higher proportion of funds tied up in inventory.
- B. higher liquidity.
- C. more current assets to meet short-term obligations
- D. fewer current liabilities.

QA5. SP.Q6

Mr Chan is the owner of a furniture manufacturing and trading business. Most of the furniture was manufactured by his own factory in Hong Kong and the rest was purchased from several manufacturers in Shenzhen.

The following are the financial ratios of the business for the year ended 31 December 20X6:

	Business	Industry average
Turnover	\$1 250 000	\$1 300 000
Gross Profit ratio	38%	60%
Net profit ratio	6%	42%
Current ratio	2.8:1	2.3:1
Liquid ratio	0.8:1	1.2:1

- (a) Suggest two reasons why the gross profit ratio and net profit ratio of Mr Chan's business are much lower than the industry averages. (4 marks)
- (b) Comment on the liquidity of Mr Chan's business in 20X6. (4 marks)

QA6. PP.Q2

Glassy Ltd and Pearl Ltd are competitors in the same industry. Based on the following information, comment on the liquidity of Glassy Ltd in 2011. (6 marks)

	<u>Glassy Ltd</u>	<u>Pearl Ltd</u>	<u>Industrial Average</u>
Current ratio	2.8:1	2.0:1	1.9:1
Quick ratio	1.0:1	1.1:1	1.0:1

**D. HKCEE Questions on accounting principles and concepts**

1. 2001 Q.1

(A) Explain the following accounting concepts and illustrate each with an example:

(i) Historical cost (2.5 marks)

(b) For each of the independent situations described below, list the accounting principle or concept that has been violated and give your explanation:

(i) Andy Company accrued expense on the personal bank loan of the owner at year end. (2.5 marks)

2. 2003 Q.1

(A) Explain the following concepts and illustrate each with an example:

(b) Accrual (3 marks)

(B) For each of the independent situations described below, list the accounting principle or concept that has been violated and give your explanation:

(b) Yick Man Engineering Company entered into an agreement to repair a machine for a customer at an agreed price of \$60,000. Repair work started on 1 December 2002 and was scheduled to end on 31 January 2003. On 31 December 2002, Yick Man Engineering Company received a partial payment of \$30,000 from the customer. The company recorded this amount as revenue for the year ended 31 December 2002. (4 marks)

3. 2004 Q.1

(A) Explain the following accounting concepts and illustrate each with an example:

(a) Consistency (3 marks)

(B) For each of the independent situations described below, list the accounting principle or concept that has been violated and give your explanation.

(a) Ivan Lee owns four independent firms that trade in clothing, furniture, leather goods and mobile phones respectively. As he is only interested in the overall performance of his investment instead of the performance of individual firms, Ivan keeps one single set of books to record all transactions of the four firms.

(b) An item of office equipment with an original list price of \$45,000 was acquired by Carlson Limited for \$35,000 in a special sale. Since the office equipment had a market value of \$42,000 on the date of purchase, Carlson Limited recorded this amount in the fixed asset account. (8 marks)

4. 2005 Q1

(B) For each of the independent situations below, indicate whether the accounting treatment is correct or incorrect and accordingly state the accounting principle/assumption that is applied or violated:

	Correct or Incorrect	Accounting principle/assumption applied or violated
Example: Ellen Ltd has been adopting different methods to calculate depreciation on its motor vehicles for the past four years.	Incorrect	Consistency
(b) Betty Ltd continued to report its fixed assets at net book value at 31 March 2005 although the company would close down in April 2005.	?	?

(2 marks)

5. 2006 Q.1

(A) Explain the following accounting concepts and illustrate each with an example:

(b) Going concern (3 marks)

6. 2007 Q.1

(A) Explain the following accounting concepts and illustrate each with an example:

(a) Consistency  
(b) Accrual (6 marks)

(B) For each of the independent situations described below, list the accounting principle or concept that has been violated and provide an explanation:

(a) Thomas Chan bought an antique motor car for his personal use at a cost of \$800,000. As at 31 March 2007, this car was shown as a current assets at the market value of \$830,000 on his company's balance sheet.

(b) Merry Notes Entertainment Company organized two mini concerts which were to be held in February 2007 and April 2007 respectively. The tickets for the two concerts were sold in advance in January 2007. In its profit and loss account for the year ended 31 March 2007, Merry Notes Entertainment Company recorded the revenues for both concerts. However, only the expenses for the February 2007 concert were shown. (8 marks)

7. 2009-Q3A

Eiton Lee's business had been running at a loss during the past three years. Since costs of operation had been rising, Eiton decided to close his business on 1 January 2009. In the balance sheet at 31 December 2008, Eiton listed the assets at then-book values.

**REQUIRED:**

State the accounting principle or concept that has been violated and give an explanation. (4 marks)

8. 2002-Q.2A

A sole trader notices that there is an overdraft balance in his business bank account. He wants to include his personal bank balance on the balance sheet of his business. What is your advice and why would you give such advice?

(2 marks)

9. 1990-Q.1A

Briefly define, the historical cost principle. What advantages does historical cost have over asset valuation?

10. 1990-Q.1B(i),(iii),(iv)

Identify the concept, principle or assumption that serves as the basis for each of the following separate accounting practices:

(i) A company implemented a straight line depreciation policy in 1987 for its newly acquired assets. It continued to use straight line depreciation in 1988 and 1989 for these assets.

(iii) The personal transactions of proprietors are not mixed with those of the business.

(iv) A business will continue to operate for an indefinite period of time unless there is strong evidence to the contrary.

End of HKCEE Questions

Answers

MC1-3 A B B

QA1 Reasons:

- for external user: e.g. investors to make investment decision
- for internal users: e.g. managers to formulate financial plans
- to comply with legal requirements

(1 mark for each relevant reason, max. 2 marks)

QA2

**Limitations:**

- **information is mostly quantitative**
- **data relate to past events only**
- **different use of accounting methods and policies makes intra-company comparison difficult**
- **neglect of time value of money hinders users to do inter-period comparison of the company**

(2 marks for each relevant limitation, max. 6 marks)

MC 4-8 D A C B A

QA3

- \$38 000 1
- Going concern 1
- As the business discontinued its operation in the foreseeable future, assets should not be valued at historical cost but current market value 1

QA4

(a)

- Business entity concept
- It assumes a business is separated from its owner
- Private transactions of the owner should not be recorded in the books of the business
- The bookkeeper should record it as drawings in the books

(1 mark for each relevant point, max. 3 marks)

(b)

- Historical cost principle
- Assets should be recorded at their cost of acquisition or production
- Subsequent changes in their market values are to be ignored
- The bookkeeper should record \$12 000 as the cost of the notebook computer in the books (1 mark for each relevant point, max. 3 marks)

MC 9-12 C D D A



QA5(a)

Reasons:

- relatively low selling price
  - relatively high production cost
  - operating costs are high / control on operating costs is ineffective
- (2 marks for each relevant reason, max. 4 marks)

(b)

Comments:

- the liquidity of the business is worse than the industry average
  - there are not sufficient liquid assets to meet its immediate debts
  - too much capital is tied up in stock
- (2 marks for each relevant comment, max. 4 marks)

QA6 (Total: 6 marks)

Current ratio of Glassy Ltd is higher than that of Pearl Ltd which indicates its greater ability to meet short-term obligations. (1)

Quick ratio of Glassy Ltd is lower than that of Pearl Ltd which means it is less able to pay its immediate debt. (1)

However, as the current ratio of Pearl Ltd is more comparable to the industrial average, the higher current ratio of Glassy Ltd might imply its inability of using available resources to grasp investment opportunity. (2)

Besides, the significant difference between the quick ratio and current ratio of Glassy Ltd as compared with Pearl Ltd might imply Glassy Ltd is tied up with excessive inventories or other repayments. (2)

CE Answers

1. 2001 Q1

(a)(i)

Historical cost

- Assets and expenses are entered into the books at their actual cost to the business. Cost is the exchange price agreed upon by the parties to the exchange and changes in market value thereafter are generally ignored.
- For example, a piece of land acquired at a cost of \$1 000 000 would be recorded by this amount in the books. Even though its market value might have gone up to \$1 100 000 in the next year, the historical cost concept suggests that it should still be recorded at its original cost, i.e. \$1 000 000.

(b)(i)

Entity principle

- The business is considered a separate entity distinguishable from its owner and from all other entities. A separate set of accounting records is maintained for the business and the financial statements represent the financial position and results of operations of the business only.
- The interest expense on the personal loan of the owner should not be recorded as the accrued interest expense of the company.

2. 2003 Q1

Accrual concept.

**Under the accrual concept, incomes and expenses are accrued, i.e. incomes and expenses are recognised and included in profit and loss account when they are earned or incurred, not when they are received or paid in cash.**

Example:

**Insurance premium paid for the first quarter of next accounting period should not be included as expenses in the current accounting period.**

3. 2004 Q1

(A)(a)

**Consistency**

- The accounting treatment of similar items within each accounting period and from one period to the next should be consistent/the same.
- **Example:** The same method of calculating depreciation on a particular type of fixed asset should be adopted from one year to another unless there are changes in circumstances which warrant another method.

(B)(a)

**Business entity concept**

- A business is considered as a separate entity distinguishable from its owner and from all other entities. A separate set of accounting record should be maintained for each firm and the financial statements represent the financial position and results of operations of that firm only.
- Accounting records should not be kept jointly for the four firms. A separate set of books should be maintained for each firm.

(B)(b)

**Historical cost concept**

- Assets and expenses are entered into the books at their actual cost to the business. Cost is the exchange price agreed upon by the parties to the exchange. Market value and list price are generally ignored.
- The office equipment should not be recorded at its market value. It should be recorded as its purchase cost of \$35 000.

4. 2005 Q1(B)(b)

(b)      **Incorrect**      **Going concern concept**

5. 2006 Q1(A)(b)

A business is assumed to continue to operate in the foreseeable future. In particular, the financial statements have been drawn up on the assumption that there is no intention or necessity to liquidate or curtail significantly the scale of operations. 2

**Example**

Fixed assets are recorded on the balance sheet at cost (less accumulated depreciation), not their realisable values. 1

6. 2007 Q1

(A)(a) 3 marks

**Consistency principle**

The accounting treatment of similar items within each accounting period and from one period to the next should be consistent /the same.

**Example**

The same method of calculating depreciation on a particular type of fixed asset should be adopted from one year to another unless there are changes in circumstances which warrant another method.

(A)(b) 3 marks

**Accrual concept**

Under the accrual concept, revenues and expenses are accrued, i.e. revenues and expenses are recognised and included in the financial statements when they are earned or incurred, not when they are received or paid in cash.

**Example**

Rates prepaid for the first quarter of next accounting period should not be included as expenses in the current accounting period.

(B)(a) 4 marks

**Business entity principle**

- A business is considered as a separate entity distinguishable from its owner. A separate set of accounting records is maintained for the business and the financial statements represent the financial position and results of operations of the business only.
- The antique motor car is a personal asset of Thomas Chan and should not be included in the financial statements of his business.

(B)(b) 4 marks

(Note: Realization principle is also a possible answer)

**Accrual concept**

- Revenues and expenses are accrued, i.e. revenues and expenses are recognised and included in the financial statements when they are earned or incurred, not when they are received or paid in cash.
- The financial statements for the year ended 31 March 2007 should include neither the sales revenue received nor any expenses paid for the concert to be held in April 2007.

7. 2009 Q3(A)

**Going concern principle**

- A business is assumed to continue to operate in the foreseeable future. In particular, the financial statements have been drawn up on the assumption that there is no intention or necessity to liquidate or curtail significantly the scale of operations. 1  
1½
- Since the business is going to wind up on 1 January 2009, the assets should be shown at their realisable values in the balance sheet as at 31 December 2008. 1½

8. 2002 Q2(A)

According to the business entity concept, an owner's personal assets should not be shown as assets of his business.  
(2 marks)

9. 1990 Q1(A)

***Historical cost principle***

It defines that assets acquired in business must be recorded at cost which was the purchase price and any related expenses which bring the asset to its present condition and location.

***Advantages of historical cost over asset revaluation***

Using the historical cost method is more objective and verifiable, as the asset value is supported by invoices and other related documents. This method also supports another accounting concept called Going Concern which supposes the business will continue to operate in the foreseeable future. It means that there is no intention or necessity either to liquidate the entity or to curtail significantly its activities. So, historical cost is more relevant and significant for accounting records, but the market value is less important as assets are not assumed to be resold or realized.

10. 1990-Q.1B(i),(iii),(iv)

- (i) Consistency
- (iii) Business Entity
- (iv) Going Concern

Introduction to Accounting Part 3: Books of Original Entry

Ch.12 Books of Original Entry and Ledgers

1.2012 P1A Q28

Which of the following statements is not correct?

- A. The amount of total purchases should be posted to the purchases ledger.
- B. The petty cash book is one of the books of original entry.
- C. Only credit sales are recorded in the sales journal.
- D. Purchase of non-current assets on credit should be recorded in the general journal.

2.2010 AL P1 Q5

Suggest three ways in which a manufacturer can adjust his policy on working capital management to cope with an economic recession. (6 marks)

CH.13 Cash Book

3. 2010 CE Q3

Jane Ho is a sole proprietor who keeps records of her cash and bank transactions in a three-column cash book. The balances in the cash book as at 1 March 2010 were: cash \$38 900 and bank overdraft \$6240. Jane made the following transactions during the month of March 2010:

March 2	Sales with a list price of \$8000 were made to a customer at a discount of 10% on 25 February 2010. The customer settled his account balance by cheque after deducting a 3% cash discount.
5	From the proceeds of cash sales, paid \$1000 for cash purchases of trading goods and banked the remaining \$4600.
11	Settled a supplier's outstanding account of \$3000 by cheque after deducting a 5% cash discount.
16	A customer paid cash \$19 600 to settle her debt. A 2% cash discount was allowed for early settlement.
22	Paid suppliers in cash \$16 500.
29	Banked cheques of \$27 800 from customers through an Automatic Teller Machine (ATM).
30	Paid salaries in cash \$14 000.
31	Banked a cheque of \$3007 from a customer in full settlement of his account of \$3100.

Jane Ho received a bank statement which showed a credit balance of \$27 194 as at 31 March 2010. An examination of the bank column in the cash book and the bank statement disclosed the following discrepancies:

- (i) Bank lodgement on 31 March 2010 had not yet been recorded by the bank.
- (ii) A bank service charge of \$300 had been debited by the bank on 26 March 2010. However, an amount of \$100 had been overcharged and was refunded by the bank on 31 March 2010.
- (iii) Cheques drawn totalling \$19 200 had not been presented to the bank.
- (iv) An autopay payment of \$18 000 was made by the bank for rent.
- (v) A post-dated cheque of \$4100 received from a customer was banked on 29 March 2010, but it was returned by the bank.

REQUIRED:

- (a) Prepare a three-column cash book for the month of March 2010, incorporating the necessary updates to be made on 31 March 2010. (12 marks)
- (b) Prepare a bank reconciliation statement as at 31 March 2010 commencing with the bank statement balance and ending with the updated cash book balance in (a) above. (2 marks)

4. 2013 P1B Q5

David is a sole proprietor who keeps records of his cash and bank transactions in a three-column cash book. The balances in the cash book as at 1 January 2013 were: cash \$12 680 and bank overdraft \$30 980. In addition, a petty cash imprest amount of \$2000 was maintained on that date. Transactions made in January 2013 were as follows:

2013	
Jan 2	Received a cheque from a customer, Lung, who was given a cash discount of 2½% to settle his account of \$150 000. The cheque was banked on the same day.
5	Paid a 20% deposit by cheque for the purchase of a motor van costing \$200 000. The balance was to be paid on delivery two weeks later.
7	Received a cheque of \$190 000 from Hilly Company as commission for work done.
14	Cash amounting to \$8790 from sales were deposited into the bank directly.
17	David withdrew \$3200 from the cash box to pay his son's school fees.
19	Paid the balance of the motor van purchased on 5 January by cheque.
24	Settled Kam Kee's account of \$35 000 by cheque, with a cash discount of 3%.
28	Withdrew \$9000 from the bank and put the money in the cash box for business use.
30	Paid wages of \$10 000 in cash and \$20 000 by cheque.
31	Petty cash had a balance of \$205. The petty cash imprest amount was replenished with cash.

Write up a three-column cash book for January 2013.

(8 marks)

CH.15 General Journal

5.SP P1A Q20

Which of the following incidents relating to a toy trader should NOT be recorded in the General Journal?

- A. The sale of an office desk on credit
- B. A credit note received from a supplier
- C. The exchange of a fax machine for a copier of equal value
- D. Correction of a credit transfer from a customer credited to a wrong personal account

6.2013 P1A Q3

Which of the following transactions would be recorded in the General Journal?

- A. purchase of goods on credit
- B. goods returned from customers
- C. introduction of office premises as capital
- D. cash drawings for personal use by the proprietor

ANS

1. 2012.P1A.MC28:	A
5. SP.P1A.MC20	B
6. 2013.P1A.Q3	C

2. 2010 AL P1 Q5

**QUESTION 5**

Ways:

- lower inventory level
  - tighten credit policy
  - speed up collection of accounts receivables
  - defer payments for accounts payables
- (2 marks for each relevant point, max. 6 marks)

3. 2010 CE Q3

**QUESTION 3**

**Marks**

(a)

2010 Mar		Discount	Cash	Bank	2010 Mar		Discount	Cash	Bank	
		\$	\$	\$			\$	\$	\$	
½	1		38 900		1	Balance b/d			6 240	½
1¼	2	216		6 984	5	Purchases		1 000		½
½	5		5 600		5	Bank		4 600		½
½	5			4 600	11	Creditors	150		2 850	1
1	16	400	19 600		22	Creditors		16 500		½
¼	29			27 800	30	Salaries		14 000		½
1	31	93		3 007	31	Bank service charge (ii)			200	1
					31	Rent (iv)			18 000	½
					31	Debtors (v)			4 100	1
					31	Balance c/d		28 000	11 001	½
		<u>709</u>	<u>64 100</u>	<u>42 391</u>			<u>150</u>	<u>64 100</u>	<u>42 391</u>	(12)

(b)

Bank reconciliation statement as at 31 March 2010		\$	
Balance as per bank statement		27 194	½
Add: Lodgement not yet recorded by bank (i)		<u>3 007</u>	½
		30 201	
Less: Unpresented cheques (iii)		<u>19 200</u>	½
Balance as per updated cash book		<u>11 001</u>	½
			(2)

Total: 14 marks

4. 2013 P1B Q5

