2015-DSE
BAFS

PAPER 2A

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2015

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A

Accounting Module

10.30 am – 12.45 pm (2 hours 15 minutes)

This paper must be answered in English

INSTRUCTIONS

(1) There are three sections in this paper.

(2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.

(3) Write your answers in the answer book. Start **EACH** question (not part of a question) on a **NEW** page.

Not to be taken away before the end of the examination session

SECTION A (24 marks)

Answer **ALL** questions in this section.

1. The following information was extracted from the cash book of Jaden Company for the month ended 31 December 2014:

Cash at bank

2014		$	2014		Cheque No.	$
Dec 1	Balance b/d	21 000	Dec 8	Kenneth Ltd	707891	5 200
5	Candy Ltd	24 000	10	Electricity	707892	1 900
12	Man Ltd	19 300	15	Tony	707893	12 200
20	Cherry	9 310	21	Yip's Ltd	120485	4 000
31	Nam Ltd	8 620	31	Balance c/d		58 930
		82 230				82 230

Jaden Company received the following bank statement for the month of December 2014:

Date	Description	Withdrawal	Deposit	Balance
2014		$	$	$
Dec 1	Balance b/d			21 000
5	Cheque deposit		24 000	45 000
12	Cheque deposit		19 300	64 300
14	Direct debit - water	3 100		61 200
16	Refer to drawer	19 300		41 900
17	Cheque 707892	1 900		40 000
18	Sunny Ltd		12 300	52 300
20	Cheque deposit		9 310	61 610
21	Cheque deposit		4 000	65 610
22	Cheque 707891	5 200		60 410
31	Bank charges	30		60 380

Additional information:

(i) On 18 December 2014, a customer, Sunny Ltd, made a credit transfer to the company's bank account without notifying the company.

(ii) On 21 December 2014, Cheque 120485 was received from a customer, Yip's Ltd, but it was recorded as a payment in the cash at bank account.

REQUIRED:

(a) Update the cash at bank account of Jaden Company. (5 marks)

(b) Prepare a bank reconciliation statement as at 31 December 2014, commencing with the updated cash at bank balance. (3 marks)

(Total: 8 marks)

2. The following information was extracted from the books of Tommy Limited for the month of March 2015:

	$
Allowances from suppliers for damaged goods	990
Bad debts written off	1 410
Contra between sales ledger and purchases ledger	4 500
Purchases ledger control account balance, 1 March 2015	8 900
Cash purchases	13 200
Cash sales	22 100
Credit purchases	35 400
Credit sales	89 000
Discounts allowed	1 230
Discounts received	670
Interest charged on overdue customers	190
Payments to suppliers by cheques	19 800
Returns inwards	890
Returns outwards	560

REQUIRED:

(a) Write up the purchases ledger control account for the month ended 31 March 2015. (4 marks)

(b) State one advantage of maintaining control accounts. (1 mark)

(Total: 5 marks)

3. Ivan Company had the following cost information for 2014:

	$
Beginning inventories:	
Direct materials	30 000
Work in progress	18 000
Finished goods	48 000
Carriage inwards on direct materials	20 000
Direct materials purchases	140 000
Direct labour	380 000
Ending inventories:	
Direct materials	55 000
Work in progress	33 000
Finished goods	38 000
Production overheads	330 000

REQUIRED:

Calculate the following items for 2014:

(a) Cost of direct materials consumed (1 mark)

(b) Prime cost (1 mark)

(c) Cost of goods manufactured (1 mark)

(d) Cost of goods sold (1 mark)

(Total: 4 marks)

4. Peter Company plans to sell 3000 pairs of shoes at $350 per pair. Relevant financial information is given below:

	$
Fixed production overheads	150 000
Fixed selling and administrative expenses	228 000
Direct materials per pair of shoes	45
Direct labour per pair of shoes	55
Variable production overheads per pair of shoes	18
Sales commission per pair of shoes	22

REQUIRED:

(a) Calculate the contribution margin for each pair of shoes. (2 marks)

(b) How much sales revenue does Peter Company have to earn in order to achieve a target profit of $168 000? (2 marks)

(c) If the price is set at $365 per pair, it is estimated that the sales quantity will drop from 3000 pairs to 2700 pairs. Should Peter Company raise the price? Support your answer with calculations. (3 marks)

(Total: 7 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

5. Ron, Sam and Tim were in partnership sharing profits and losses in the ratio of 1:2:3 respectively. An extract of the account balances as at 31 December 2014 is given below:

	$
Capital accounts:	
- Ron	112 300
- Sam	30 000
- Tim	190 700
Office equipment, net	465 000
Inventory	83 000
Trade receivables	62 000
Cash at bank	4 000
Loan from Tim	80 000
Trade payables	201 000

On 1 January 2015, Sam was declared bankrupt and the partnership was dissolved. The relevant information is as follows:

(i) Ron took over the office equipment at 50% of its net book value.

(ii) Tim took over all the inventory to settle 60% of his loan to the partnership. The partnership paid the outstanding loan balance by cheque.

(iii) Ron was responsible for collecting all the trade receivables for the partnership. Finally he collected $60 000 and deposited the amount into the partnership's cash at bank account. The partnership agreed to pay him a handling fee of 2% on the amount collected.

(iv) The partnership received a 2.4% discount on the trade payables, which were settled by Tim on behalf of the partnership.

(v) Realisation expenses of $3800 were paid by cheque.

(vi) Sam was unable to settle his account and it was agreed that his deficiency was to be borne by the remaining partners according to their profit and loss sharing ratio.

REQUIRED:

Prepare the following accounts:

(a) realisation account (5 marks)

(b) the partners' capital accounts in columnar form (5 marks)

(Total: 10 marks)

6. The trial balance as at 31 December 2014 for Elsa Company failed to agree and a suspense account was opened to record the difference. The following errors were subsequently discovered:

(i) Credit sales for $500 had been overlooked by the bookkeeper and no record was made in the books.

(ii) Payment of $3000 for rates was debited to the rental deposit account.

(iii) An electricity bill for December 2014 amounting to $2500 was recorded as $250 in the books. The bill would be settled in January 2015.

(iv) A cheque for $1200 received from a customer, Windy Ltd, had been entered in the cash book only.

(v) Discounts received of $540 had been credited to the purchases account as $450.

(vi) On 31 December 2014, Elsa, the sole owner of the company, took over one of the company's motor vans for her personal use. She thought that she was just using her own asset and therefore she did not make any accounting record for this. The motor van cost $80 000 and had a net book value of $50 000 on 31 December 2014.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (7 marks)

(b) Identify the type of accounting error made in each of items (i), (ii) and (iii) above. (3 marks)

(c) Identify and explain the accounting principle or concept that has been violated in (vi) above. (3 marks)

(Total: 13 marks)

7. Susan Café operates its own bakery and produces cookies and cupcakes. Information on the two products is as follows:

	Cookies	Cupcakes
Selling price per box	\$290	\$390
Direct material cost per box	\$20	\$120
Direct labour hour per box	$\frac{1}{3}$ hour	$\frac{1}{2}$ hour
Labour wage rate per hour	\$90	\$90
Variable production overheads per box	\$15	\$15

The bakery produces and sells 2400 boxes of cookies and 1800 boxes of cupcakes per year. Production overheads are allocated on the basis of direct labour hours. Details of annual fixed production overheads for the bakery are as follows:

	\$
Supervisor's salary	286 000
Depreciation on equipment	80 000
Rent	144 000

REQUIRED:

(a) Calculate the following for the bakery:

(i) the predetermined fixed production overhead absorption rate (2 marks)

(ii) the total production cost per box of cupcakes (2 marks)

A local supplier offered to supply Susan Café with all the cookies and cupcakes it needed. The prices were \$170 per box for cookies and \$270 per box for cupcakes. The offer was conditional that Susan Café must buy both products. In other words, the supplier would not supply just one type of product for the price indicated. If the offer was accepted, all the equipment would be scrapped and the bakery would be closed.

REQUIRED:

(b) Explain, with supporting calculations, whether Susan Café should continue to produce its own cookies and cupcakes, or purchase them from the local supplier. (4 marks)

Finally, Susan Café decided to produce its own products, for better quality control. The bakery is operating at only 85% of its full capacity of 2000 direct labour hours per year. It is therefore decided that one more product, shortbread, will be produced to fully utilise the capacity of the bakery.

The estimated annual demand for shortbread is 3900 boxes and the selling price is \$370 per box. Additional information on the production of shortbread is provided below:

Direct material cost per box	\$180
Direct labour hour per box	$\frac{1}{6}$ hour
Labour wage rate per hour	\$90
Variable production overheads per box	\$15

REQUIRED:

(c) (i) Calculate the contribution per direct labour hour for each of the three products. (2 marks)

(ii) To maximise the total contributions of the bakery at its full capacity, calculate the annual production quantity for each of the three products. (3 marks)

(Total: 13 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

8. Before the preparation of the income statement, Nancy Company Limited has drafted the trial balance as at 31 December 2014 as follows:

	Dr	Cr
	$	$
Purchases and sales	890 000	1 380 000
Ordinary shares of $5 each, fully paid		1 200 000
Accumulated depreciation – office equipment, 1 January 2014		340 000
Trade receivables and trade payables	321 900	247 800
Retained profits, 1 January 2014		210 000
6% debentures		150 000
Cash at bank		42 000
Administrative expenses	345 000	
Inventory, 1 January 2014	156 000	
Office equipment	1 570 000	
Selling and distribution expenses	286 900	
	3 569 800	3 569 800

Additional information:

(i) It is the company's policy to depreciate its non-current assets on a straight-line basis at an annual rate of 10%. Depreciation expenses and loss on disposal are classified as administrative expenses.

(ii) On 1 October 2014, Nancy Company Limited traded in a piece of used office equipment with a cost of $100 000 for a new model. The trade-in value was agreed at $22 000. The old office equipment had an accumulated depreciation of $52 500 on 1 January 2014. No accounting record had been made for the above arrangement. In respect of this trade-in, the company was required to pay $140 000 for the new office equipment, $5000 for its delivery, $1000 for the insurance during its delivery and $3000 to train staff to operate the new office equipment. All these expenditures had been treated as administrative expenses for 2014.

(iii) On 1 July 2014, $150 000 6% debentures were issued, interest being payable half-yearly on 1 January and 1 July.

(iv) In December 2014, goods invoiced at $30 000 were sent to a customer on a sale-or-return basis. These had been recorded as credit sales for the year. As at 31 December 2014, 75% of these goods were accepted by the customer. The remaining 25% had been included in the closing inventory at cost.

(v) An invoice for selling expenses of $2000 was received but not yet recorded in the books.

(vi) Inventory as at 31 December 2014 had a cost of $290 000. 20% of the inventory was slightly damaged and had a net realisable value of $49 980.

(vii) On 31 December 2014, the board of directors resolved to transfer $100 000 to general reserve.

REQUIRED:

(a) Prepare a statement to calculate the cost of the new office equipment in (ii) above. (3 marks)

(b) Prepare for Nancy Company Limited the income statement for the year ended 31 December 2014 and the statement of financial position as at that date. (14 marks)

(c) Explain, with a relevant accounting principle or concept, the accounting treatment of (vi) above. (3 marks)

(Total: 20 marks)

9. Pearl Ltd had the following financial information related to the year 2014:

As at 1 January 2014	$
Shareholders' equity	300 000
Retained profits	40 000
Total assets	343 000
Non-current assets	101 000
Inventory	65 000
Current liabilities (Note (i))	43 000

For the year ended 31 December 2014	$
Cash sales	60 000
Credit sales	390 000
Cash purchases	110 000
Credit purchases	132 000
Increase in current assets (not including inventory)	27 000
Increase in trade payables	3 000

The retained profits as at 31 December 2014 amounted to $128 000 and no profit appropriations were made during the year.

(i) Pearl Ltd had trade payables only as its current liabilities.

(ii) An electricity bill for December 2014 amounting to $2500 was received on 16 January 2015. As the payment would be made in February 2015, no accounting record had been made by the bookkeeper.

(iii) A physical inventory count on 4 January 2015 showed that the value of inventory on that date was $31 700, which had been used for the computation of profits for the year 2014. During the period 1 January to 4 January 2015, there were credit purchases with a total list price of $3000. A trade discount of 10% had been given by the supplier on these purchases and a 2% cash discount would be received if the settlement was made in two weeks. Goods costing $5000 were sold during these 4 days.

REQUIRED:

(a) Identify the relevant accounting principle or concept violated in (ii) above. Briefly explain. (3 marks)

(b) Calculate the following amounts as at 31 December 2014:

(i) inventory (2 marks)

(ii) current assets (3 marks)

(c) Calculate (to two decimal places) the following ratios for the year 2014:

(i) net profit ratio (2 marks)

(ii) quick ratio (2 marks)

(iii) trade payables turnover (in times) (2 marks)

(iv) inventory turnover (in times) (2 marks)

Lily Ltd and Jasmine Ltd are two listed companies in the same industry and have a similar scale of production. They have a similar share price. Their financial ratios for the year 2014 are shown below:

	Lily Ltd	Jasmine Ltd
Return on capital employed	31%	15%
Gearing ratio	25%	65%
Earnings per share	$18	$15.2

REQUIRED:

(d) Pearl Ltd is planning to invest a designated amount of cash, for the same percentage of shareholding, in one of the above companies. Advise and explain which company Pearl Ltd should invest in based on the three ratios above. (4 marks)

(Total: 20 marks)

END OF PAPER