2021-DSE
BAFS
PAPER 2A

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2021

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 Section A are compulsory. You are required to **answer two of the three questions in Section B** and 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, weighting 30%)

Answer ALL questions in this section.

1. The following information is about Nancy Company for the year ended 31 December 2020:

(i) The summary of receipts for rental income is as follows:

Rental period	Receipt date	$
1 September 2019 - 29 February 2020	11 November 2019	390 000
1 March 2020 - 31 August 2020	2 April 2020	390 000
1 September 2020 - 28 February 2021	10 January 2021	429 000

From 1 September 2020, there was an increase in monthly rental income.

(ii) The summary of payments for fixed repair and maintenance expenses is as follows:

Service period	Payment date	
1 November 2019 - 31 January 2020	31 January 2020	Total amount paid in 2020 was $65 520
1 February 2020 - 30 April 2020	30 April 2020	
1 May 2020 - 31 July 2020	31 July 2020	
1 August 2020 - 31 October 2020	31 October 2020	
1 November 2020 - 31 January 2021	3 February 2021	

From 1 August 2020, the monthly repair and maintenance expenses increased by 20%.

REQUIRED:

Write your answers for items (A) to (N) in the answer book. (8 marks)

Rental income

2020	Details	$	2020	Details	$
31 Dec	F	G	1 Jan	Balance b/d	A
			2 Apr	B	C
			31 Dec	D	E
		?			?

Repair and maintenance expenses

2020	Details	$	2020	Details	$
31 Jan	Bank	I	1 Jan	Balance b/d	H
30 Apr	Bank	I	31 Dec	M	N
31 Jul	Bank	I			
31 Oct	Bank	J			
31 Dec	K	L			
		?			?

(Total: 8 marks)

2. The cash at bank account of Teddy Limited for December 2020 is as follows:

Cash at bank

2020		$	2020		Cheque No.	$
Dec 1	Balance b/d	2 208	Dec 12	Gigi Limited	321012	12 400
Dec 25	Pearl Company	29 200	Dec 15	Y&Y Limited	321013	25 213
Dec 25	Amazing Company	856	Dec 29	Salaries	321014	11 000
Dec 28	Fanny Company [note (i)]	7 210				
Dec 31	Kitty Limited	3 510				
Dec 31	Balance c/d	5 629				
		48 613				48 613

The bank statement for December 2020 is as follows:

Date 2020 Dec	Description	Withdrawal $	Deposit $	Balance $
1	Balance b/d			2 208
10	Credit transfer: Sunny Limited		43 520	45 728
15	Direct debit - electricity expenses	2 830		42 898
20	Cheque - 321013	25 213		17 685
25	Cheque deposits		30 056	47 741
28	Dividend		2 472	50 213
30	Bank charges	125		50 088
30	Cheque - 321014	11 000		39 088

Note:

(i) On 28 December 2020, a cheque dated 3 January 2021 from a customer, Fanny Company, had been received. The cheque was paid for the service to be provided by Teddy Limited in January 2021.

REQUIRED:

(a) Update the cash at bank account of Teddy Limited. (4 marks)

(b) Prepare a bank reconciliation statement as at 31 December 2020. (2 marks)

(c) Briefly explain, with the most relevant accounting principle or concept, whether the receipt in note (i) should be recorded as revenue in the year 2020 by Teddy Limited. (2 marks)

(Total: 8 marks)

3. Megan Company produces and sells three kinds of water sports gears: paddles, kayaks and surfboards. The proportion of sales quantity of paddles and kayaks is maintained at a sales mix ratio of 2:1. Budgeted figures for the products for next year are as follows:

	Paddle	Kayak	Surfboard
Unit of production and sales	5 000 units	2 500 units	4 000 units
Selling price per unit	$80	$500	$400
Direct material cost per kg	$50	$75	$60
Direct materials per unit	0.5 kg	4 kg	2 kg
Direct labour cost per unit	$4	$12	$70
Selling expenses per unit	$1	$18	$10
Fixed manufacturing overhead costs	$120 000	$120 000	$960 000

REQUIRED:

(a) Calculate:

(1) the production cost per unit of surfboards.

(2) the contribution margin per sales mix of paddles and kayaks.

(3 marks)

(b) Assuming 3 000 units of kayaks will be sold next year, and the sales mix ratio of paddles and kayaks will be maintained, calculate the sales quantity of surfboards at which Megan Company will break even.

(2 marks)

(c) Assuming 4 920 units of surfboards will be sold next year, and the sales mix ratio of paddles and kayaks will be maintained, calculate the sales quantity of paddles at which Megan Company will achieve a target profit of $270 000.

(3 marks)

(Total: 8 marks)

SECTION B (24 marks, weighting 40%)

Answer TWO questions in this section.

8 The account balances of Jacky Company as at 1 March 2021 are as follows:

	$	
Bank	800	Cr
Cash	18 500	
Trade receivables - Mandy	5 600	
Trade payables - Vincy	4 800	
Inventory (550 units)	16 500	
Prepaid operating expense (for March)	1 000	

The company uses the weighted average cost method for inventory valuation.

The transactions of Jacky Company during March 2021 are as follows:

March

2	Mandy settled the balance on 1 March by cheque with a cash discount of 5%.
3	Paid $2 400 cash to Vincy to settle half of the outstanding amount on 1 March.
6	Purchased goods of $32 each from Paul by cheque for $14 400.
8	Purchased 2 000 units of goods from Perry on credit. The unit list price and trade discount were $36 and 5% respectively.
10	A customer, Suki, purchased 220 units of goods at $55 each by cheque.
15	A customer, Susan, purchased 1 800 units of goods on credit at $54 each. She would receive a cash discount of 4% for settlement within 15 days.
20	Susan returned 300 units of goods purchased on 15 March.
24	Susan settled the outstanding amount by cheque.
25	Paid $12 300 operating expenses for March in cash.
31	Paid carriage inwards of $2 700 for March by cheque.

REQUIRED:

(a) Prepare a three-column cash book for the month ended 31 March 2021. (6 marks)

(b) Prepare an income statement for the month ended 31 March 2021. (6 marks)

(Total: 12 marks)

5. Tracy operates a business as a sole trader. The account balances as at 1 April 2020 are extracted as follows:

	$
Trade receivables	25 000
Trade payables	16 000
Inventory	22 000
Bank	355 900
Cash	49 600

Information relating to the transactions made during the year ended 31 March 2021 is as follows:

(i) All sales and 75% of purchases were made on credit. All goods were sold at a uniform mark-up of 200%.

(ii) Total sales amounted to $320 000.

(iii) Credit notes issued amounted to $5 600.

(iv) Except cash purchases, all receipts and payments were made through the bank as shown below:

	$
Receipts from trade receivables	298 000
Payments to trade payables	80 000
Payments for operating expenses	150 000

(v) Ken is both a customer and a supplier of Tracy. On 25 March 2021, they agreed to set off $320 in the trade receivables account against the trade payables account in Tracy's books.

(vi) The physical inventory count took place on 6 April 2021 and the amount of inventory was $34 000. From 1 April to 6 April 2021, goods with a cost of $15 000 were sold, goods amounting to $13 000 were purchased and returns outwards were $2 000.

(vii) A warehouse was rented for storing goods at a monthly rental of $7 500. The bookkeeper had overlooked this and the rental for March was paid in April 2021.

REQUIRED:

Prepare:

(a) the trade receivables account for the year ended 31 March 2021. (3 marks)

(b) a statement to calculate the total purchases for the year ended 31 March 2021. (3 marks)

(c) the trade payables account for the year ended 31 March 2021. (2 marks)

(d) a statement to calculate the working capital as at 31 March 2021 by listing the components of total current assets and total current liabilities. (4 marks)

(Total: 12 marks)

6. Macy Limited manufactures three products: X, Y and Z. The company keeps no inventory of materials and completed goods. The budgeted figures for the coming quarter are as follows:

Product	Note	X	Y	Z
Sales quantity (units)		240 000	120 000	20 000
Direct labour hours required per unit		0.2 hour	0.15 hour	0.1 hour
Unit contribution margin		$2.7	$2.45	$4.2
		$	$	$
Sales		2 400 000	1 320 000	340 000
Costs:				
Direct materials		600 000	420 000	160 000
Direct and indirect labour	(i)	1 060 000	460 000	140 000
Fixed and variable manufacturing overheads	(ii)	480 000	390 000	80 000
		2 140 000	1 270 000	380 000
Profit / (Loss)		260 000	50 000	(40 000)

Notes:

(i) Direct labour cost is budgeted at $20 per labour hour, whereas indirect labour cost is fixed.

(ii) Budgeted total fixed manufacturing overheads for the coming quarter was $456 000, which would be allocated to products X, Y and Z on the basis of units sold.

REQUIRED:

(a) Calculate the following for Macy Limited for the coming quarter: (5 marks)

(1) the total indirect labour cost, showing the amounts to be shared by products X, Y and Z respectively.

(2) the fixed manufacturing overheads to be allocated to products X, Y and Z respectively, basing on the budgeted total amount in note (ii) above.

(3) the unit variable manufacturing overheads for products X, Y and Z respectively.

The marketing manager proposed discontinuing the production of Product Z and switching the capacity to produce an additional 10 000 units of Product X.

(iii) Increasing the production of Product X would decrease its selling price by 2%.

(iv) A worker earning $12 000 per month would be laid off after the discontinuation of Product Z. Direct labour cost per unit of Product X would increase by 1%.

(v) Based on the budgeted total amount in note (ii) above, 38% of the fixed manufacturing overheads allocated to Product Z would be saved.

REQUIRED:

(b) If the above proposal is accepted,

(1) calculate the unit contribution margin of Product X. (2 marks)

(2) prepare a statement to calculate the total profit or loss for the coming quarter. Start with the total contribution margins of Product X and Product Y. (4 marks)

(c) Briefly explain whether Macy Limited should accept the above proposal. (1 mark)

(Total: 12 marks)

SECTION C (20 marks, weighting 25%)

Answer **ONE** question in this section.

7. The trial balance of Holly Limited as at 31 December 2020 is shown below:

	$	$
Purchases and Sales	2 736 000	4 080 000
Debenture interest	18 000	
Rent and rates	360 000	
Salaries	190 000	
Office equipment	1 970 000	
Accumulated depreciation - office equipment, 1 January 2020		962 000
Motor vans	980 000	
Accumulated depreciation - motor vans, 1 January 2020		528 000
Inventory, 1 January 2020	119 000	
Bank	424 000	
Trade receivables and Trade payables	1 577 000	598 000
2019 Final dividend	220 000	
2020 Interim dividend	150 000	
Retained profits, 1 January 2020		546 000
General reserves		150 000
8% Debentures (maturity date: 30 September 2021)		300 000
Application monies for ordinary shares		180 000
Ordinary share capital		1 400 000
	8 744 000	8 744 000

Additional information:

(i) Based on the physical inventory count, the value of the inventory as at 31 December 2020 was $135 000. It was discovered that some goods costing $32 000 had been damaged and could be sold for $26 200 only after having them repaired at $2 200 in January 2021.

(ii) In December 2020, goods invoiced at $45 000 were sent to a customer on a sale-or-return basis. These goods had been marked up at 50% and recorded as credit sales. On 31 December 2020, the customer confirmed to accept 70% of these goods and return the rest in January 2021, but no adjustments had been made in the books for this.

(iii) 100 samples were received free of charge from a supplier for promoting a new product. The samples had been recorded as a credit purchase and included in the closing inventory at the supplier's list price of $70 each.

(iv) With reference to the bank statement of December 2020, it was found that a credit transfer of $36 500 from a customer to settle his account had not yet been recorded.

(v) Depreciation on office equipment and motor vans is to be charged as follows:

- Office equipment: 20% per annum using the reducing-balance method. Scrap value was estimated at $125 000.
- Motor vans: 25% per annum using the straight-line method on a monthly basis.

On 1 September 2020, a motor van had been totally scrapped in a car accident. However, no entries were made in the books. This motor van was purchased on 1 July 2017 for $180 000.

A motor van which was purchased for $160 000 on 1 April 2016 was still in use at the end of 2020.

(xi) The debenture interest is payable on 31 March and 30 September every year.

(xii) On 17 December 2020, application monies of 120 000 shares for the issue of 100 000 ordinary shares at $1.50 each were received. The shares had been allotted on 31 December 2020 but no entries were made for this. The excess application monies were refunded on 6 January 2021.

(xiii) On 31 December 2020, the board of directors resolved to transfer $100 000 to the general reserve.

REQUIRED:

(a) Prepare for Holly Limited:

(1) an income statement for the year ended 31 December 2020. (8 marks)

(2) a statement to calculate the retained profits as at 31 December 2020. (3 marks)

(3) a statement of financial position as at 31 December 2020. (7 marks)

(b) In January 2021, Holly Limited declared a final ordinary dividend for 2020. Explain whether the company should record the final dividend as a liability of 2020. (2 marks)

(Total: 20 marks)

8. Wong and Wu were in partnership, sharing profits and losses equally. The trial balance of the partnership as at 31 December 2019 is as follows:

	$	$
Capital – Wong		800 000
Capital – Wu		300 000
Current – Wong		132 000
Current – Wu	147 000	
Net profit before appropriations		90 000
Office equipment, net	890 000	
Inventory, 31 December 2019	260 000	
Trade receivables	315 000	
Trade payables		225 000
10% loan from Wu (borrowed on 1 July 2019)		40 000
Bank		25 000
	1 612 000	1 612 000

Subsequent to the preparation of the trial balance above, the partners discovered that the following items had not yet been recorded:

(i) Interest on drawings, 5% per annum:

Wong – withdrew $150 000 on 1 May 2019
Wu – withdrew $96 000 on 1 November 2019

(ii) Interest on partners' capital for 2019, 6% per annum.

(iii) Interest on the loan borrowed from Wu.

REQUIRED:

(a) Prepare the current accounts of Wong and Wu in columnar form for the year ended 31 December 2019. (4 marks)

On 1 January 2020, Chau was admitted to the partnership with the following arrangements:

(iv) The office equipment was to be revalued at $1 005 000.

(v) An allowance for doubtful accounts of 2% was to be made.

(vi) Goodwill was valued at $160 000 but the goodwill account was not to be maintained in the books. Adjustments for goodwill between partners were to be made in the capital accounts.

(vii) Chau brought in a piece of office equipment valued at $150 000, together with additional funds by cheque so that his capital account would have a balance of $400 000.

(viii) The profit and loss sharing ratio of Wong, Wu and Chau is 3:3:2. Chau is entitled to an annual salary of $50 000.

(ix) Neither interest on drawings nor interest on capital is allowed for the new partnership.

REQUIRED:

(b) Prepare the capital accounts of Wong, Wu and Chau in columnar form, to record the admission of Chau. (4 marks)

(c) Give one reason why asset revaluation is necessary upon the admission of a new partner. (2 marks)

During 2020, the partnership did not operate well and made a loss of
following account balances were extracted from the books as at 31 December 2020:

	$
Office equipment, net	800 000
Inventory	168 000
Trade receivables, net	340 000
Trade payables	250 000
Bank	379 700

On 31 December 2020, the partners decided to dissolve the partnership. The relevant information is as follows:

(x) The office equipment was sold at 16% below its net book value and a transportation charge of $32 000 was deducted from the proceeds.

(xi) Two thirds of the inventory was sold for $100 000. Chau took over the remaining inventory at $54 000 and paid the realisation expense of $3 600 on behalf of the partnership.

(xii) Total amount received from trade receivables was $331 600.

(xiii) Trade payables were fully settled, of which 40% was settled with a 5% discount.

REQUIRED:

Prepare:

(d) the realisation account. (5 marks)

(e) the partners' capital accounts in columnar form, showing the necessary adjustments for the dissolution. (5 marks)

(Total: 20 marks)

END OF PAPER