Sample Paper-DSE BAFS

PAPER 2A

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY

HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A
Accounting Strand
Sample Paper

10:15 am – 12:45 pm (2 hours 30 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.

This sample paper aims to illustrate the revised rubrics, instructions and paper layout, effective from the 2025 examination. The questions are adapted from past papers as follows:

Sample Paper	**HKDSE**	
	Year	**Question**
1(a)	2017	Paper 1 Q4(a)
1(b)	2014	Paper 1 Q3(b)
2(a)	2016	2
2(b)	2017	3(a)
3(a)	2017	1(a)(b)
3(b)	2017	Paper 1 Q3(d)
4(a)	2012	Paper 1 Q1
4(b)(c)(d)	2017	3(b)(c)(d)
5(a)(b)	2016	Paper 1 Q4(a)(b)
5(c)	2014	6(b)
6	2018	4
7(a)	2014	6(a)
7(b)	2017	7(b)
8	2017	6
9	2015	8(a)(b)
10	2016	8(a)(b)

SECTION A Answer ALL questions. (38 marks)

1. John commenced a firm selling grocery and household products on 1 January 2016. Three employees were hired for the operation of the firm.

   The following balances were obtained from his books as at 31 December 2016:

	$
Capital, 1 January 2016	240 000
Bank overdraft	173 400
Furniture	204 000
Sales	796 200
Purchases	500 400
Returns inwards	1 800
Returns outwards	1 500
Discounts received	2 100
Operating expenses	507 000

REQUIRED:

(a) Prepare for John's firm a trial balance as at 31 December 2016. (6 marks)

(b) From the accounts given above, identify one example for real account and nominal account respectively. (2 marks)

(Total: 8 marks)

2. (a) ABC Company keeps the following four ledgers only: cash book, general ledger, purchases ledger and sales ledger. Indicate the accounts to be debited and credited, and the ledgers to be recorded for transactions (i) to (v) in the table below. Write your answers for items (1) to (20) in the answer book.

Transaction		**Debit entry to be recorded**		**Credit entry to be recorded**	
		Account	**Ledger**	**Account**	**Ledger**
e.g.	***Equipment purchased in cash***	***Equipment***	***General ledger***	***Cash***	***Cash book***
(i)	**Office rent paid by cheque**	(1)	(2)	(3)	(4)
(ii)	**Goods purchased on credit**	(5)	(6)	(7)	(8)
(iii)	**Bank loan acquired**	(9)	(10)	(11)	(12)
(iv)	**Goods returned by credit customers**	(13)	(14)	(15)	(16)
(v)	**Interest income accrued**	(17)	(18)	(19)	(20)

(5 marks)

ABC Company acquired a production machine for $432 000 on 1 January 2013. The expected total production hours of the machine are 8 000 hours during its useful life of four years. No residual value is expected and annual depreciation is to be provided based on the usage of the machine.

The actual annual hours used for production were as follows:

Year	Actual production hours
2013	1 800
2014	2 300
2015	2 400
2016	2 500

REQUIRED:

(b) Calculate the annual depreciation expenses of the machine for 2015 and 2016. (3 marks)

(Total: 8 marks)

3. The following are some accounting principles and conventions:

- Money measurement
- Consistency
- Going concern
- Business entity
- Materiality
- Realisation

Situations:

(i) Owner's personal assets are not recorded in the books of his business.

(ii) In a multinational corporation, a calculator costing $50, with an estimated useful life of 10 years, was purchased for office use. The whole amount of $50 was recorded as an expense in the year of purchase.

(iii) Assets are not recorded at their liquidation values in the statement of financial position when a business is not expected to liquidate in the foreseeable future.

(iv) The expertise of the top management is not recorded in the statement of financial position.

(v) Sales revenues are recognised when goods are delivered to and accepted by customers.

REQUIRED:

(a) Referring to the above table, identify the most appropriate accounting principle or convention for each of the situations. (5 marks)

The financial year of Company A ends on 31 December. On 4 January 2017, Company A received an electricity bill for December 2016 of $9 500. It then settled the bill on 29 January 2017.

(b) Explain, with a relevant accounting principle or concept, in which year the electricity of $9 500 should be recorded as an expense. (3 marks)

(Total: 8 marks)

4. (a) Explain one limitation on the use of financial statements. (2 marks)

KM Company is a manufacturer producing a single product, Y. The following information for its three types of manufacturing overheads is available. Each overhead type demonstrates different cost behaviour. The maximum annual production capacity of KM Company is 600 000 units.

Production level (units)	360 000	420 000	480 000	540 000	600 000
Manufacturing overheads:	$	$	$	$	$
- Type P	400 000	400 000	400 000	(i)	400 000
- Type Q	180 000	210 000	(ii)	270 000	300 000
- Type R*	77 000	(iii)	101 000	113 000	125 000

*Type R includes fixed manufacturing overheads and variable manufacturing overheads.

REQUIRED:

(b) Compute the amounts for items (i) to (iii) in the above table. (3 marks)

(c) With reference to cost behaviour, identify the type of manufacturing overheads that Type R belongs to. (1 mark)

KM Company is considering a one-off special order from a customer. It has sufficient production capacity to cope with this order.

REQUIRED:

(d) With reference to cost behaviour, when KM Company decides whether to accept the order, which of the above three types of manufacturing overheads (P, Q or R) is irrelevant? Briefly explain your answer. (2 marks)

(Total: 8 marks)

5. John runs a small supermarket. Its financial statements for the year 2015 are given below:

Income Statement for the year ended 31 December 2015

	$
Sales	100 000
Less: Cost of goods sold	60 000
Gross profit	40 000
Less: General expenses	30 000
Net profit	10 000

The balances of the capital account as at 1 January 2015 and 31 December 2015 were $37 000 and $30 000 respectively.

REQUIRED:

(a) Calculate (to two decimal places) the gross profit ratio, the net profit ratio and the return on capital employed for the year 2015 for John's supermarket. (3 marks)

(b) Man Kee is another small supermarket in the same district. Its gross profit ratio and net profit ratio for the year 2015 are 35% and 15% respectively. Briefly comment on the profitability of John's supermarket for the year 2015 as compared with Man Kee. (2 marks)

(c) State one limitation of accounting ratios in financial analysis. (1 mark)

(Total: 6 marks)

SECTION B Answer ALL questions. (32 marks)

6. Jay and Joe were in partnership sharing profits and losses in the ratio of 3:2, the balances of their capital accounts as at 1 January 2017 were \$229 000 and \$144 000 respectively. On the same date, Tom was admitted to the partnership with the following arrangements:

   (i) Jay, Joe and Tom would share profits and losses in the ratio of 3:3:4 and Tom would be paid a monthly salary of \$22 000 by cheque at the end of each month.

   (ii) Goodwill was to be valued at \$80 000. All other assets were to be revalued upwards by \$120 000. The new partnership would not keep a goodwill account.

   (iii) Interest on drawings of 5% per annum would be charged while interest on capital of 4% per annum would be calculated on the beginning balances of the capital accounts.

   (iv) Tom had to bring in sufficient funds so that his capital account balance would amount to 40% of the total capital of the new partnership.

   (v) The new partnership would maintain fixed capital accounts.

   REQUIRED:

   (a) Prepare the partners' capital accounts in columnar form, showing the admission of Tom. (4 marks)

   After a year of operation, the following information was extracted from the books of the new partnership for the year ended 31 December 2017:

		$
Sales		4 002 600
Cost of goods sold		1 085 400
Operating expenses (including annual salary paid to Tom)		2 412 000
Interest expenses (including the interest on capital)		75 600
Drawings	- Jay (withdrawn on 1 May 2017)	180 000
	- Joe (withdrawn on 1 July 2017)	120 000

   REQUIRED:

   (b) Prepare the appropriation account of the partnership for the year ended 31 December 2017. (6 marks)

(Total: 10 marks)

7. Peter started his business on 1 January 2012. A fire on 31 December 2013 destroyed some accounting records and inventory. The following balances as at 31 December were extracted from the remaining records:

	2013	**2012**
	$	$
Office equipment, at cost (all purchased on 1 January 2012)	180 000	180 000
Inventory	65 000	75 000
Trade receivables	80 000	90 000
Trade payables	32 000	18 000

The following information relating to the year ended 31 December 2013 was also available:

(i) The inventory loss in the fire was ascertained at $31 000.

(ii) All goods were sold on credit and the average trade receivables collection period was 2 months.

(iii) All purchases were on credit and the average trade payables turnover was 9 times.

(iv) Advertising expenses of $8 000, rental expenses of $37 200 and salaries of $144 000 were incurred in 2013. No compensation would be received for the fire loss.

(v) Depreciation is to be provided at the annual rate of 20% using the reducing-balance method.

REQUIRED:

(a) Prepare for Peter's business the income statement for the year ended 31 December 2013, showing all the necessary items including sales, purchases and inventory loss. (8 marks)

(b) Briefly explain the meanings of normal loss and abnormal loss of inventory. Identify the type of inventory loss caused to Peter's business by the fire. (2 marks)

(Total: 10 marks)

8. Nice Company commenced business on 1 January 2016. It produces a single product, M1. The income statement for the year ended 31 December 2016 was as follows:

	$	$
Sales (9 600 units)		2 400 000
Less: Cost of goods sold		
Direct materials	300 000	
Direct labour	600 000	
Fixed production overheads	930 000	
	1 830 000	
Less: Closing inventory (2 400 units)	366 000	
	1 464 000	
Add: Under-absorbed fixed production overheads	15 000	1 479 000
Gross profit		921 000
Less: Selling and administrative overheads		
- fixed	360 000	
- variable (include sales commission only)	240 000	600 000
Net profit		321 000

REQUIRED:

(a) Calculate the contribution margin per unit of M1. (4 marks)

(b) Calculate the breakeven sales amount for 2016. (4 marks)

Nice Company is considering producing an advanced model 'Super-M' in 2018. If Nice Company produces both M1 and 'Super-M', the production information is estimated as follows:

	M1	Super-M
Annual production	5 000 units	7 000 units
Direct labour hour required per unit	$\frac{1}{10}$ hour	$\frac{1}{6}$ hour
Machine hour required per unit	$\frac{4}{5}$ hour	$\frac{2}{3}$ hour

Fixed production overheads of 2018 are budgeted at $988 000, which mainly covers factory rent, machine maintenance and depreciation for machinery.

REQUIRED:

(c) Calculate the predetermined fixed production overhead absorption rate (to 2 decimal places) for each unit of M1 and 'Super-M' respectively, using the following cost absorption bases:

(i) direct labour hours

(ii) machine hours (2 marks)

(d) Briefly explain which cost absorption basis, direct labour hours or machine hours, would you recommend to Nice Company. (2 marks)

(Total: 12 marks)

SECTION C Answer ONE question. (18 marks)

9. 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, $5 000 for its delivery, $1 000 for the insurance during its delivery and $3 000 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 $2 000 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. (15 marks)

(Total: 18 marks)

10. Gary Company Limited has prepared the following statement of financial position as at 31 December 2015, the end of its first year of operation:

	$
Office equipment	840 000
Less: Accumulated depreciation – office equipment, 31 December 2015	(210 000)
Delivery vans	480 000
Less: Accumulated depreciation – delivery vans, 31 December 2015	(10 000)
Inventory	645 000
Trade receivables [note (iv)]	490 000
Cash at bank	154 400
	2 389 400

	$
Ordinary share capital	1 000 000
Retained profits	255 000
Long-term bank loan	200 000
Short-term loan	480 000
Trade payables	454 400
	2 389 400

Additional information:

(i) A short-term loan of $456 000 was obtained to purchase a delivery van costing the same amount on 1 December 2015. The loan and its interest, totalling $480 000 have to be repaid on 1 May 2016. This total amount was mistakenly debited to the delivery vans account and credited to the short-term loan account. It is the company's policy to depreciate all non-current assets evenly over four years on a monthly basis.

(ii) On 31 December 2015, it was discovered that some goods costing $32 250 had been damaged and could only be sold for $22 200 after having them repaired for $2 600 in January 2016. No adjustment had been made in the closing inventory for the above.

(iii) A purchase order from a customer for goods at an invoice price of $15 000, with a mark-up of 25%, was received on 30 December 2015. The goods would be delivered to the customer on 15 January 2016. These goods were not included in the closing inventory as the order had been recorded as credit sales on 30 December 2015.

(iv) Analysis of the trade receivables is shown as follows:

	$
Amount due from customers [including the sales of goods in note (iii)]	503 000
Deposits received from customers	(3 000)
	500 000
Less: 2% allowance for doubtful debts provided according to company's policy	(10 000)
	490 000

(v) The bank reconciliation statement as at 31 December 2015 showed that there were three unpresented cheques totalling $23 400 on that date. After further review, the bookkeeper discovered that one of the unpresented cheques for $11 800 was issued to a supplier on 5 May 2015. It is the practice of the bank not to honour cheques outstanding for more than six months.

REQUIRED:

(a) Prepare the necessary journal entries to correct the above. Narrations are not required. (9 marks)

(b) Prepare for Gary Company Limited the statement of financial position as at 31 December 2015. (9 marks)

(Total: 18 marks)

END OF PAPER