

BAFS – Generally Accepted Accounting Principles (GAAP) (HKAL)

1. AL.2001.P2.Q6 (i) (ii) (iv) (vi)

For each of the independent situations below, state and explain the accounting practice or accounting concept(s) to be followed. (13 marks)

(i) A bookkeeper recorded in the books a large purchase order of \$8 000 000 from a reliable customer for delivery six months later. The customer's account was debited and the sales account credited. This customer had been doing business with the company for twenty years and had previously placed large orders.

(ii) A company has been providing consultancy services to a number of multi-national enterprises. The directors considered that the company's relationship with its customers was permanent and that it was a big asset to the company. All the directors estimated and agreed that this amounted to \$1 000 000 and included it in the account as an intangible asset.

(iv) Due to the economic downturn, a company decided to close the business one month after the year end. Since the closure was in the next accounting year, the accountant considered that this should not affect the figures to be included in the current year's financial statements.

(vi) Two companies of the same line of business, namely ABC Ltd and CBA Ltd, were wholly owned by David Cheung. Both companies adopted the same accounting policies. Consequently, only one set of financial statements was prepared for these two companies.

Answers

Reasons

(i)	Realisation concept	½
	– sales included in the accounts only when they are reasonably certain	1
	– a purchase order placed should not be regarded as sales	1
	– the recorded entry should be eliminated	½
		(3)
(ii)	Money measurement concept	½
	– the relationship with those customers cannot be exchanged specifically for money	1
	Prudence concept	½
	– according to prudence, gains should not be anticipated; the good relationship may not be permanent	½
	Objectivity concept	½
	– the valuation is an estimate made by the directors and is subjective	½
	– the recorded entry should be eliminated	½
		(4)
(iv)	Going concern concept	½
	– a company is assumed to continue its business into the foreseeable future	1
	– however this company is to be liquidated very shortly	1
	– the assets should be valued at the net realisable value	½
		(3)
(vi)	Business entity concept	½
	– the company, for accounting purpose, is an entity separate from its owners	1
	– each company is a separate business entity	1
	– each company should prepare its own financial statements	½
		(3)



1991 Q.6

Briefly explain the following accounting principles:

- (i) materiality. (3 marks)
(ii) prudence. (3 marks)

1992 Q.6

Identify the accounting concept illustrated in each of the following instances and discuss its importance in the preparation of financial statements:

- (i) Once a particular depreciation method has been adopted, it will be used to determine the depreciation charge in each subsequent accounting period.
- (ii) Summer Hotel contracted to hire 4 coaches to provide their guests with a free transport service between the airport and the hotel. Rental charges totalling \$80,000 were to be paid in arrears on the 15th of each month. On 31 December 1991, Summer Hotel made a year end adjustment by debiting \$40,000 to its rental account.
- (iii) The fixed assets of Tanna Company were acquired 5 years ago. The cost was \$350,000 and the accumulated depreciation method amounted to \$23,400 at the end of the year 1991. These assets could be disposed of at \$180,000 net. The net value of the assets reported on the balance sheet as at 31 December 1991 was \$326,600.

1992S Q.1

Briefly explain the concepts of accruals. (4 marks)

1993 Q.1

Mr. Chan is the sole owner of a trading company. His accountant recently prepared for him a set of final accounts in accordance with generally accepted accounting principles. Mr. Chan has the following complaints:

- (i) "I can see that an expense item, 'Depreciation on Motor Van', has been deducted from the year's income. But to the best of my knowledge, we have not spent a single dollar on motor van depreciation!"

- (ii) "The profit you have quoted is so much understated. Why have you recorded the dividend received on the Hong Kong Bank shares owned by my wife and myself and paid into the business bank account as Additional Capital and not as income of the company?"

- (iii) "I know you accountants refer to the things we own as ASSETS. But how can you ignore so big an asset as my years of experience in this trade and the efficient team working under my leadership!"

1994 Q.1

Define the following accounting concepts and for each of them give an example to illustrate its application.

- (a) consistency (5 marks)
(b) prudence (5 marks)

1996 Q.1

Define the following accounting concepts and give an example for each to illustrate its application:

- (a) going concern (5 marks)
(b) quantifiability (5 marks)

1998 Q.1 (amended)

For each of the independent situations described below, list the accounting principle or concept that has been violated and prepare the original journal entry that should have been made. (No narrations are required.)

- (a) Furniture with a market value of \$80,000 was acquired on credit at a cost of \$75,000. The following entry was made:

	Debit	Credit
Furniture	\$ 80,000	\$
Creditor		75,000
Gain on purchase of furniture		5,000

- (b) The owner withdrew \$7,000 in cash for his vacation trip to Taiwan. The book-keeper recorded the entry as follows:

	Debit	Credit
	\$	\$
Travel expense	7,000	
Cash		7,000

- (c) A pocket-sized calculator was purchased for \$20 cash. The book-keeper made the following entry:

	Debit	Credit
	\$	\$
Office equipment	20	
Cash		20

- (d) An insurance premium for the coming financial year was adjusted at year end as follows:

	Debit	Credit
	\$	\$
Profit and loss	1,000	
Insurance premium		1,000

(8 marks)

1998 Q.5

- (a) Define the going concern concept and give an example to illustrate its application. (3 marks)

1999 Q.1

Ronald Limited has the following assets as at 31 March 1999:

- (i) A piece of equipment was purchased for \$180,000 less a trade discount of \$5,000. Ronald Limited paid transportation expenses of \$2,000 and insurance of \$1,800 for transporting the equipment to the office. The company also purchased consumables costing \$500 for operating the equipment. Accumulated depreciation to 31 March 1999 amounted to \$38,000. The equipment can be sold for \$128,000.

- (ii) Cash in hand amounted to \$78,000.
- (iii) Debtors amounted to \$216,000, with \$6,400 being considered as doubtful.
- (iv) Ronald Limited purchased office premises for \$2,328,000 and paid solicitor's fees of \$19,700. A valuation of \$2,200,000 is quoted by the bank on 31 March 1999.

Required:

Prepare the balance sheet extracts as at 31 March 1999 to report the above items assuming that:

- (a) Ronald Limited continues as a going concern, and (6 marks)
- (b) Ronald Limited goes out of business in the next few months. (4 marks)

2000 Q.1

For each of the independent situations described below, list the accounting principle or concept that has been violated and give your explanation. (10 marks)

- (i) Raymond Company has been adopting different methods to calculate depreciation on its motor vehicles for the past 4 years.
- (ii) In estimating the provision for doubtful debts, the accountant of Peter Limited prefers to have a provision that is slightly too small rather than slightly too large.
- (iii) The current liabilities of Reliable Store are much bigger than its current assets. In order to present a better liquidity position, the owner decides to include his personal bank account in the Store's balance sheet.
- (iv) Luxury Hotel recognises hotel room rental income on the date that a reservation is received. For the year 2001, many overseas visitors make reservations one year in advance.



2001 Q.1

- (a) Explain the following accounting concepts and illustrate each with an example:
- (i) Historical cost
 - (ii) Stable monetary measures
- (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.
 - (ii) Perfect Repairs adopts a policy of charging hand tools with small unit costs to expense when purchased, even though the tools have a useful life of several years. During the year, Perfect Repairs recorded a revenue of \$600,000 and a hand tools expenses of \$150,000 in its profit and loss account.

2003 Q.1

- (A) Explain the following concepts and illustrate each with an example:
- (a) Materiality
 - (b) Accrual
- (6 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) The closing stock of Daisy Limited included goods with a cost of \$80,000. Since no profit or loss was anticipated from the sale of these goods, the company decided to treat the whole amount as cost of goods sold in the current year.
 - (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.
- (8 marks)

2004 Q.1

- (A) Explain the following accounting concepts and illustrate each with an example:
- (a) Consistency
 - (b) Quantifiability
- (6 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)

2005 Q.1

- (A) Explain the following accounting conventions/assumptions and illustrate each with an example:
- Conservatism
 - Stable monetary measures
- (6 marks)
- (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
<i>Example: Ellen Ltd has been adopting different methods to calculate depreciation on its motor vehicles for the past four years.</i>	Incorrect	Consistency
(a) Arnold Ltd recorded the purchase of a calculator paid out of petty cash as an expense.	?	?
(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.	?	?
(c) Cypress Led purchased a delivery van for \$300,000. It was estimated that the van would have a physical life of 10 years. The company decided to depreciate this asset at an annual rate of 10% on cost.	?	?
(d) Davis Ltd received an order for the sale of 1000 tables at \$300 each on 1 January 2005. The customer paid a 20% deposit on 25 March 2005. Davis Ltd did not record any revenue until 20 April 2005, the date on which the tables were delivered to the customer.	?	?

(8 marks)

2006 Q.1

- (A) Explain the following accounting concepts and illustrate each with an example:
- Realisation
 - Going concern
- (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:

- Yoyo Limited runs a popular news and search site on the Internet. In view of the high hit rate, the directors estimate that advertising income will increase substantially and so decide to record an intangible asset of \$1,000,000 in the accounts.
 - On 1 January 2005, Beatrice Limited purchased for resale 400 pairs of leather shoes at a cost of \$300 per pair. The shoes were sold for \$500 per pair and 380 pairs were sold during the year. The company recorded the cost of goods sold at \$120 000 for the year 2005.
- (8 marks)

2007 Q.1

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

- 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.
 - 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)

Basic Accounting Concepts

2008 – Q1

Amanda is the sole owner of a business engaged in the trading of telephone sets. With her limited knowledge of accounting, she tries to do the accounting work herself. She remembers that all transactions should first be recorded in the books of original entry before posting to ledger accounts, and that the trial balance will help to locate accounting errors.

REQUIRED:

Advise Amanda on the following:

(a) What is the book of original entry for the recording of each of the transactions below?

		Book of Original Entry
(i)	Bought telephone sets for resale by cash	?
(ii)	Sold telephone sets to customers on credit	?
(iii)	Received a credit note from a supplier for telephone sets returned	?
(iv)	Gave full allowance to a customer for telephone sets returned	?
(v)	Acquired office premises by a mortgage loan	?
(vi)	Paid wages and salaries by autopay	?

(7 marks)

(b) From the transactions in (a) above, identify two examples for each of the following:

- (i) Real accounts
- (ii) Nominal accounts
- (iii) Personal accounts

(3 marks)

(c) What are the types of accounting errors that will not be revealed by a trial balance?

State four of them.

(4 marks)

2008-Q2A

Mr. Chan started his trading business on 1 January 2007. On that date, the company bought a computer for office use, costing \$12 000. The computer was expected to be used for 3 years before it would be replaced by a more advanced model. As at 31 December 2007, Mr. Chan decided that the computer be carried at its original cost of \$12 000 on the balance sheet, without providing for depreciation.

REQUIRED:

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

2008-Q3A

Ming Limited specialises in the trading of antique furniture. In view of the increasing popularity of antique furniture, the suppliers increase their selling prices by 10%. Accordingly, Ming Limited values all its closing stock at 10% above its purchase cost, although 5% of its stock is damaged and has a saleable value which is lower than cost.

REQUIRED:

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

2009-Q2A

Kate Chan owns a small store that sells candies in creative gift packages. Customers place orders online and immediate payments are to be made using credit cards. Goods are to be delivered on the following day.

REQUIRED:

State when the sales revenue should be recognised by Kate Chan and briefly explain the accounting principle or concept that should be adopted.

(3 marks)

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)

Basic Accounting Concepts

2009-Q3B – petty cash book

Vera Company keeps its petty cash on the imprest system and maintains a petty cash float of \$3000 on the first day of each month.

On 30 November 2008, the balance of petty cash was \$1037. The following transactions took place during the month of December 2008:

- | | | |
|----------|----|--|
| December | 1 | Drew cash from the bank to restore to the imprest amount. |
| | 2 | Paid newspaper subscriptions for December \$135. |
| | 3 | Bought postage stamps \$400 and note pads \$42. |
| | 8 | Added \$300 to messenger's Octopus card for delivery of documents. |
| | 11 | Reimbursed taxi fares \$97. |
| | 15 | Paid registered letter charges \$122. |
| | 16 | Refunded \$294 to Carl Cheung, a customer, for an overpayment of his account in November 2008. |
| | 19 | Bought ball pens and staplers \$205. |
| | 22 | Purchased paper cups and tissue rolls \$76. |
| | 27 | Bought magazines \$163. |
| | 29 | Paid speed post charges \$210 and bus fare \$8. |

The company adopts the following analysis columns in its petty cash book: postage, stationery, travelling expenses, sundry expenses and ledger accounts.

REQUIRED:

Draw up the petty cash book to record the above transactions for December 2008.

(10 marks)

2010-Q1

(A) Lidia Design has employed Bill Chan, a famous and experienced designer, for a contract period of three years. Bill Chan is to be paid a monthly salary of \$100 000 plus a commission of 5% on the revenues of his projects. Since the company considers Bill Chan to be a valuable asset of the business, it capitalises an amount of \$3 600 000, the total salary payable to Bill Chan, as an intangible asset on its balance sheet.

REQUIRED:

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

(B)

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

	Entries required	Net effects on the Accounting equation
<i>Example: The owner took from the business \$100 000 cash and goods at a cost of \$20 000</i>	Debit: Drawings \$120 000 Credit: Cash \$100 000 Credit: Purchases \$20 000	Decrease assets Decrease capital
(a) Paid delivery expenses of \$800 in cash on behalf of a customer.	?	?
(b) Paid \$500 for repairs and \$1500 for future maintenance of a machine. The two amounts were made by a cheque of \$2000.	?	?
(c) Borrowed a short-term loan of \$100 000 from a bank and repaid an overdue amount of \$95 000 owed to a supplier.	?	?
(d) The owner returned cash of \$2000 into the business and paid \$500 for accrued expenses which had been recorded by the business one week ago. (The total amount of \$2500 had previously been withdrawn by the owner for private use.)	?	?

(10 marks)

Basic Accounting Concepts

2010-Q2A

Paul Kan owns two firms: AB Company and XE Company. The former acts as the purchasing agent for the latter. During the year ended 31 December 2009, AB Company made purchases of \$700 000, of which 98% belonged to XE Company. Paul Kan suggests recording the whole amount as purchases in the books of AB Company to simplify the accounting procedures of his two businesses.

REQUIRED:

State how the purchases should be recorded and briefly explain the accounting principle or concept that should be adopted.

(5 marks)

2010-Q3a – Cash book

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 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 S3007 from a customer [infill] 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)

Basic Accounting Concepts

1997-Q.1

The opening provision for doubtful debts is \$67 000 in the accounts of Nicam Limited. However, the accountant decides that the closing provision is to be \$58 000.

Required:

- a. Give two reasons why a business might create a provision for doubtful debts. (4 marks)
- b. Give one reason why the accountant may wish to reduce this provision. (2 marks)
- c. How will the reduction in provision for doubtful debts be shown in the profit and loss account of Nicam Limited? (1 mark)
- d. How will the amount of the new provision be shown in the balance sheet of Nicam Limited? (1 mark)
- e. Identify the two major accounting concepts I the above case. (2 marks)

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)

1990-Q.1A

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

1990-Q.1B

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.
- (ii) Small expenditures for assets are written off as expenses when they are incurred rather than being treated as capital.
- (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.

(v) When two different accounting practices are equally acceptable, a company usually implements the accounting practice which yields a lower profit.

(vi) Revenue is entered in the accounts at the time of sale.

(vii) Plant and equipment which have limited lives and render services over several accounting periods are depreciated.

(10 marks)

1990 – Q.6

Rapid Progress Commercial School prepared a statement of profits for the year ended 31 March 1990 as follows:

	\$	\$
Cash receipts		168 000
Cash payments:		
Purchase of worksheets	1 500	
Operating expenses	39 000	40 500
Net Profit		<u>127 500</u>

The following information was obtained from a review of the school's records:

- (i) The school provided 20 800 hours of Instruction at \$10 per hour during the year. Students paid \$168 000 and the balance of fees remained outstanding on 31 March 1990.
- (ii) Total operating expenses amounted to \$56 000 during the year. Of this amount, \$17 000 is to be settled in the following accounting year.
- (iii) The school bought 2000 worksheets at \$1 each for use in the classrooms. On 31 March 1990, three-fourths of the total purchase price had been paid by the school and 800 worksheets were left in the store.

Required:

- (a) Indicate the shortcomings in the school a statement of profits for the year ended 31 March 1990.
- (b) Prepare a statement of profits using the accrual basis of accounting and explain the underlying principles of this basis.

(10 marks)



BAFS – Generally Accepted Accounting Principles (GAAP) (Sample Paper – 2020)

1. SP.P2A.Q5

Leung had run a trading company as a sole trader for many years. The company made huge sales revenue amounting to \$1 260 000 for the 3 months ended 31 March 20X6. He found that more than 80% of the revenue was contributed by the sales team headed by Chan, the sales manager. As the sales team was a valuable asset to the company, Leung suggested recording this at \$420 000, which equals 1 month's sales revenue, in the company's statement of financial position as at 31 March 20X6.

REQUIRED:

- (a) Comment on Leung's suggestion with reference to an appropriate accounting principle or concept. (3 marks)

2. PP.P2A.Q3(c)

Subsequent checking of the records by the accountant of Easy Company revealed that no entries had been made for the following items:

- (i) Loan interest of \$5050 incurred in 2011 remains unpaid as at 31 December 2011.

REQUIRED:

- (c) Explain the accounting treatment of item (i) using a relevant accounting concept. (2 marks)

3. PP.P2A.Q6(b)

After her retirement from the partnership, Alice joined Dali Ltd as the sales director. She believed that her professional knowledge in the industry would bring benefits to the company. Therefore, she suggested valuing her expertise at \$6 000 000 and recognising it in the financial statements as an intangible asset.

REQUIRED:

- (b) With reference to one relevant accounting principles / concepts, briefly explain to Alice whether the amount of \$6 000 000 should be recognised in the financial statements as an intangible asset. (3 marks)

4. 2012.P2A.Q2(b)

The non-current assets of Moody Company as at 31 December 2010 were as follows:

	Cost \$	Accumulated Depreciation \$
Machinery (all purchased in 2007)	3 600 000	3 455 000
Lorries (all purchased in 2008)	1 850 000	1 200 000
(...)		

It is the company's policy to depreciate machinery at a rate of 25% per annum on cost, and lorries at a rate of 20% per annum using the reducing balance method.

REQUIRED:

- (b) Different methods are used to depreciate the non-current assets of Moody Company. (2 marks)
Explain whether such a difference in accounting treatments violates the consistency principle.

BAFS – Generally Accepted Accounting Principles (GAAP) (Sample Paper – 2020)

5. 2012.P2A.Q9(b)

During the internal audit process, the following items were discovered:

- (vi) During the year 2011, advertising expenditure amounting to \$424 800 had been incurred and paid. The company estimated that the sales volume could be increased by 5% and 15% in 2012 and 2013 respectively as a result of the advertising. The book-keeper had therefore recorded the payment for advertising as a payment in 2011, to be written off as expenses in 2012 and 2013.

REQUIRED:

- (b) Comment on the accounting treatment of advertising expenditure in term (vi). (3 marks)

6. 2013.P2A.Q1(a)

The two directors of Amy Ltd believed that the company had a very good reputation in the industry. Director Lee proposed to quantify that at an amount of \$300 000 as goodwill. Director Chan agreed and the bookkeeper credited the amount to sundry revenue on 31 March 2013.

REQUIRED:

- (a) State and explain the accounting principle or concept that has been violated and show the journal entries to correct the above. (Narration is not required.) (4 marks)

7. 2013.P2A.Q2(c)

Mr Chan decides to apply different depreciation methods to calculate the depreciation expense on equipment in different years in order to show continuously stable operating results.

REQUIRED:

- (c) State and explain the accounting principle or concept violated in the above situation. (3 marks)

8. 2014.P2A.Q8(a)

- (i) On 1 July 2013, a rubbish bin costing \$60 was bought for office use. The estimated useful life is 5 years. The amount had been included in administrative expenses.

REQUIRED:

- (a) With reference to a relevant accounting principle, explain whether the accounting treatment for the rubbish bin in (i) is proper. (3 marks)

Nice Company is a retail shop selling computer hardware. The following information relating to the financial year.

- (ix) Starting from November 2013, Nice Company provides maintenance services to customers, who are required to pay a maintenance fee in advance. The following receipts were credited to the maintenance expenses account:

Service Plan Commencement Date	2-year Service Plan	3-year Service Plan
1 November 2013	—	\$108 000
1 December 2013	\$72 000	\$144 000

REQUIRED:

- (d) Identify the relevant revenue recognition principle and explain your accounting treatment for item (ix). (3 marks)

10. 2015.P2A.Q6(c)

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:

- (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:

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

11. 2015.P2A.Q8(c)

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

(...)

Additional information:

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

REQUIRED:

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

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

(...)

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

- (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 has been made by the bookkeeper.

REQUIRED:

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

13. 2016.P2A.Q4(a)(b)(c)

'Going concern' is an important assumption for the preparation of financial statements.

REQUIRED:

- (a) Explain the going concern assumption. (2 marks)
 (b) How are non-current assets valued when the going concern assumption no longer holds for a company? (1 mark)

The directors of Nice Limited noticed that the fair value of the existing equipment had increased dramatically at the end of 2015 due to the anticipated shortage of supply of the equipment in the next two years. Although the company would continue to use the equipment, the directors decided to record the fair value of the equipment in the financial statements of 2015.

REQUIRED:

- (c) Identify and explain the accounting principle or concept that has been violated above. (2 marks)

14. 2017.P2A.Q1

The following are some accounting principles and conventions:

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





BAFS – Generally Accepted Accounting Principles (GAAP) (Sample Paper – 2020)

Situations:

- (i) Owner's personal assets are not recorded in the books of his business.
- (ii) A business discloses its financial information as soon as possible, so that it can be used by users for decision-making.
- (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)

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.

REQUIRED:

- (b) State and explain the accounting principle or convention that has been applied in this case. (3 marks)

15. 2018.P1B.Q3(b)

Darwin Limited is a listed company, running a department store business with five stores of a similar size in Hong Kong.

The performance of Darwin Limited was poor during the past few years. In February 2018, the company had to liquidate within six months as it was unable to repay its debts. Therefore, the financial statements as at 31 December were not prepared based on the going concern assumption.

- (b) Explain the going concern assumption. How should the non-current assets of Darwin Limited be valued as at 31 December 2018? (2 marks)

BAFS – Generally Accepted Accounting Principles (GAAP) (Sample Paper – 2020)

16. 2018.P2A.Q7(b)(c)

KK Company Limited has a 31 December 2017 year end.

...

Item (iii):

On 29 December 2017, the company received a purchase order from a customer for goods priced at \$270 000. The bookkeeper recorded the order as credit sales for the year 2017, though the goods were to be delivered to the customer on 4 January 2018.

- (b) Briefly explain, with a relevant accounting principle or concept, the accounting treatment of item (iii) above. (3 marks)

Having prepared the income statement, the directors of KK Company Limited have the following queries:

Director Ma: I was told that the depreciation policy could not be changed, otherwise the consistency principle would be violated. Is that right?

REQUIRED:

- (c) With reference to Director Ma's query, state two reasons for adopting the consistency principle when preparing the financial statements. (2 marks)

17. 2019.P2A.Q5(b)

- (b) With reference to a relevant accounting principle or concept, explain why a business has to provide depreciation for equipment. (3 marks)

18. 2020.P1B.Q2(b)

Based on the General managers' suggestion, Chan's firm is considering changing the valuation method of its non-current assets this year.

- (b) State an accounting principle or concept that can be applied to this case, and use this principle or concept to explain whether or not Chan's firm should change the valuation method of its non-current assets. (3 marks)

19. 2020.P2A.Q7(d) Skip this question if you have not learned Cost Accounting: Absorption costing.

- (d) Define 'matching concept' and explain how the concept is applied to the absorption costing system. (2 marks)

CE Questions

1. 2000.Q1

- (i) Consistency principle /
With respect to depreciation methods, this principle means that the company should not change from year to year the method used in calculating depreciation for its motor vehicles. Consistency increases the comparability of financial statements from period to period. The principle does not prohibit a company from changing its accounting methods. If a change is made, however, the reasons and effects of the change must be explained. /

2½

- (ii) Conservatism/prudence principle /
Accountants traditionally believe that understatement of profits and assets is less damaging to investors than overstatement. Understating the provision for doubtful debts results in an overstatement of net profits and assets.

2½

- (iii) Entity principle /
If users of financial statements are to evaluate properly the financial position and operating results of a business entity, then the assets, liabilities, revenue and expenses appearing in its financial statements must only be those of the business. Personal assets of the owner should not be included. /

2½

- (iv) Realisation principle /
Under this principle, revenue should not be recognised until the earning process is essentially complete and objective evidence exists as to the amount of income earned. Luxury Hotel earns its income by providing its guests with rooms, not merely by accepting reservations. /

2½

(Total: 10 marks)

2. 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.

2.5

- (ii) Stable monetary measures
 - Under the stable monetary measure assumption, changes in the purchasing power of money is ignored. Accounting transactions are recorded and reported in dollars that are assumed to have a constant value.
 - For example, two pieces of equipment costing \$5000 each were bought at different times, one in 1997 and the other in 2000. Although the dollar amounts were the same, their purchasing power had changed. However, the stable monetary measures concept assumes that they were of constant purchasing power and therefore an aggregate cost of \$10 000 would be recorded.

2.5

(b)(i) Entity principle

2.5

- 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.

(ii) Materiality principle

2.5

- The principle of materiality justifies expensing small capital expenditures rather than treating them as depreciable assets.
- However, when the total amount of the loose tools is significant enough to influence the decisions of the users, it should then be capitalised and depreciated.

3. 2003.Q1

(A)

(a) Materiality concept

2

In accounting, materiality refers to the relative size or importance of an item or event. Financial statements should separately disclose items that are significant enough to influence decisions of users. Judgments with regard to the materiality of an item or event are based on knowledge of the company and on past experience.

Example: Writing off the cost of a stapler with an estimated useful life of three years as an expense in the year of purchase, rather than depreciating it over the three years.

(b) Accrual concept

2

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.

(B)(a) Matching concept

1

- The matching principle links revenue with its relevant expense or cost. Until a sale is recognised as revenue, the cost relating to that sale cannot be recognised.
- The stock cost of \$80 000 can only be treated as cost of goods sold when the sale of these goods is completed.

(b) Realisation principle

1

- Revenue for a period is determined by applying the realisation principle, which requires that revenue be recognised in the period when goods are sold or when services are rendered.
- The whole of \$60 000 should only be recognised as revenue when the repair of the machine is completed on 31 January 2003.

(Total: 14 marks)

BAFS – Accounting concepts and principles - Answer
4. 2004.Q1

(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) **Quantifiability**

- Only transactions capable of being expressed in monetary/money terms should be included in the accounting records of a business entity.
- Example: Staff morale or customer loyalty should not be recorded in the accounts of a company.

(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) **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.

Total: 14 marks

5. 2005.Q1

(A)(a) **Conservatism**

- In case of doubts, accountants should choose a treatment which minimises the reported figure of profit and asset valuation, or maximises the reported figure of loss and liability valuation.
- Example: The adoption of the lower-of-cost-or-market-value in the valuation of stock.

(b) **Stable monetary measure**

- Under the stable monetary measure assumption, changes in the purchasing power of money are ignored. Accounting transactions are recorded and reported in dollar amounts that are assumed to have a constant value over time.
- Example: Different items of fixed assets purchased in different years are added together and shown in aggregate in the balance sheet.

(B)(a) **Correct, Materiality concept**

-)
- (b) **Incorrect, going concern concept**
- (c) **Incorrect, Matching principle**
- (d) **Correct, Realisation Principle**

3

2

2

2

2

BAFS – Accounting concepts and principles - Answer

(8)

6. 2006.Q1

- (A)(a) **Revenue for a period is determined by applying the realisation principle, which required that revenue be recognised in the period when goods are sold or when services are rendered.**

Example:

Rental income received in advance for January 2006 on 25 December 2005 is not recognised as revenue for the year 2005. The rental receipt should only be recognised as revenue in 2006.

- (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.**

Example

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

(B)(a) **Conservatism principle**

- Conservatism means that when choosing among accounting alternatives, the best choice is one that is least likely to overstate assets and profits.
- Since the asset is not purchased and the amount estimated is subjective, the company should not record the intangible asset of \$1 000 000 in its accounts.

(b) **Matching concept**

- The matching concept links revenue with its relevant expenses or costs.
- The cost relating to the sale can only be recorded when the goods are sold and the related sales revenue is realised.
- The cost of goods sold should only amount to \$114 000 ($380 \times \300). (\$6000 should be carried forward as closing stock)

(4)
Total: 14 marks

- (A)(a) Consistency Principle 3
) 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) Accrual concept 3
 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) Business entity principle 4
 – 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) Realisation principle 4
 – Revenue for a financial year is determined by applying the realisation principle, which requires that revenue be recognised in the period when goods are sold or when services are rendered.
 – The sales revenue for the year ended 31 March 2007 should not include the ticket sales for the concert to be held in April 2007. The revenue should only be recognised upon the completion of the concert in April 2007.
- OR
 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.

Total: 14 marks

- (a) (i) Cash book
 (ii) Sales day book
 (iii) Returns outwards day book
 (iv) Returns inwards day book
 (v) The Journal
 (vi) Cash book
 (vii) The Journal
 (1 mark for each correct item)
- (b) (i) Real accounts 1
 – cash/bank, office premises, loan, accrued charges, debtors, creditors, stock
 (ii) Nominal accounts 1
 – sales, purchases, returns outwards, returns inwards, wages and salaries, electricity expense
 (iii) Personal accounts 1
 – debtors, creditors
 (½ mark for each example, max. 1 mark for each part) (3)
- (c) Errors not revealed by a trial balance:
 – error of (complete) omission
 – error of complete reversal (of entries)
 – error of commission
 – error of principle
 – compensating errors
 – error of original entry
 (1 mark for each relevant type of error, max. 4 marks)

BAFS – Accounting concepts and principles - Answer
9. 2008 Q2A

Matching concept

- The matching concept links revenue with its relevant expenses or costs.
- The use of the office equipment contributes to the generation of revenue of the business.
- The cost of the office equipment should therefore be allocated over its useful life on a systematic basis, e.g. straight line basis.
- The cost of using the office equipment during the year (the depreciation) should be recorded as an expense (in the profit and loss account) for the year ended 31 December 2007.

1
max. 3

(4)

10. 2008.Q3A

Conservatism (Prudence) concept

- Conservatism means that when choosing among accounting alternatives, the best choice is one that is least likely to overstate assets and profits.
- The company should adopt the lower of cost or market value in the valuation of stock.
- The damaged stock should be valued at market value.
- The loss in the damaged stock should be recognised / recorded in the trading or profit and loss account.
- The remaining stock should be valued at cost.

1
max. 3

(4)

11. 2009.Q2A

- Sales revenue should be recorded after the gift packages are delivered to the customers.
- Realisation principle should be adopted.
- Revenue for a period is determined by applying the realisation principle, which requires that the revenue be recognised and recorded when goods are sold or when services are rendered.

1
1
1

(3)

12. 2009.Q3A

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.
- 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.

1
1½

1½

(4)

BAFS – Accounting concepts and principles - Answer

13. 2010.Q1

Quantifiability

- Only transactions capable of being expressed in monetary terms should be included in the accounting records of a business entity.
- The value of the designer cannot be measured in monetary terms and should not be recorded in the accounts of the business.
- The total amount of salary payable to the designer does not reflect the value of the employee to the business.

1
1
1

(4)

(B)	Entries	\$	Marks		Marks
			Net Effects	No effect	
	(a) Debit: Debtors Credit: Cash	800 800	½ ½		1
	(b) Debit: Repair expenses Debit: Prepaid maintenance expenses Credit: Bank	500 1 500 2 000	½ ½ ½	Decrease assets Decrease capital	½ ½
	(c) Debit: Bank Debit: Creditors Credit: Bank loan	5 000 95 000 100 000	½ ½ ½	Increase assets Increase liabilities	½ ½
	(d) Debit: Cash Debit: Accrued expenses Credit: Drawings/Capital	2 000 500 2 500	½ ½ ½	Increase assets Decrease liabilities Increase capital	½ ½ ½

(10)

14. 2010.Q2A

- Business entity principle should be adopted.
- Accounting records should be kept separately for each firm.
- AB Company and XE Company are required to record their own purchases.
- AB Company and XE Company should record purchases of \$14 000 and \$686 000 respectively.
- \$686 000 should be recorded as the amount due from XE Company to AB Company.

1
1
1
1
1

(5)

15. 2002.Q2A

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

(2 marks)

DSE Questions

1. SP.P2A.Q5

Money measurement concept

- Financial statements should only record transactions and events that can be measured in money terms.
- The importance of manager's expertise to the company cannot be ascertained in money terms with reasonable certainty.
- The value of \$420 000 is an estimate made by Leung and is subjective. Therefore, no record should be made.

1
max. 2

(3)

[XX] cannot be ascertained in money terms with reasonable certainty (SP.2A.Q5).

2. PP.P2A.Q3(c)

(c) Accrual concept

- Unpaid loan interest should be credited to accrued loan interest account to represent an increase in current liability in 2011.
- The loan interest incurred should be debited in the profit and loss account as an increase in operating expenses of 2011.

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

1

(2)

3. PP.P2A.Q6(b)

(b) The amount of \$6 000 000 should not be recognised.

1

Reasons:

- Prudence concept: the future benefits arising from the intangible asset are uncertain
- Money measurement concept: Alice's professional knowledge cannot be quantified and expressed in monetary terms
- Objectivity concept: the valuation is only a personal and subjective estimation

(2 marks for each relevant explanation, max. 2 marks)

2

4. 2012.P2A.Q2(b)

It does not violate the consistency concept

1

Reasons:

- consumption pattern is different for different types of non-current assets
- the company is consistently applying the same depreciation method for the same type of non-current assets;

(1 mark for each relevant reason)

(max) 1

(2)

5. 2012.P2A.Q9(b)

- should not be treated as prepayment
- should be charged to income statement as expense
- uncertain revenue recognition: increase in sales volume is just an estimate

1

1

1

(3)

6. 2013.P2A.Q1(a)

Accounting principle/concept violated:

- money measurement concept

1

Explanations:

- only transactions capable of being expressed in monetary terms are included in the accounting records of an entity
- good reputation cannot be quantified in terms of money and should not be reflected in the financial statements
- goodwill would be recorded only when it is purchased from an existing business.

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

2

7. 2013.P2A.Q2(c)

Accounting principle/concept violated:

- consistency concept

1

Explanations:

- same accounting policy should be applied on like items across years
- a change in depreciation method is allowed when it will result in a more true and fair presentation of the firm's financial position
- to stabilise operating results over year is not a justifiable reason for the change in depreciation method

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

2

(3)

8. 2014.P2A.Q8(a)

- The materiality principle should be applied.
- Materiality refers to the impact of an item's nature and size on the company's financial operations. The materiality principle states that if an item would not make a difference to the users' decision-making, it is justifiable to write the item off as an expense when it is incurred.
- It is proper to expense the rubbish bin immediately in view of its insignificant value and the savings in time and cost of providing annual depreciation.

1

1

1

(3)

BAFS – Accounting concepts and principles - Answer
9. 2014.P2A.Q9(d)

- The realisation principle should be applied. 1
- The principle governs that revenue should be recognised only when the related service has been provided (or when goods are delivered) to customers, and not when the monies are received. Max. 2
- The maintenance fees are received for two or three years' service and Nice Company should recognise the service fee revenue on a time basis over the respective service period.
- Maintenance fees received for service to be provided in the following years should be recorded as a liability / deferred as unearned revenue.

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

10. 2015.P2A.Q6(c)

- The business entity concept was violated. 1
- In accounting, a firm and its owner(s) are separate entities. Therefore, transactions between the firm and the owner(s) should also be recorded. 1
- The motor van had been withdrawn by Elsa and was no longer the asset of the company. The withdrawal should be treated as drawings and proper entries should be made in the books. 1

11. 2015.P2A.Q8(c)

- Prudence concept should be applied. 1
- It means that when choosing among accounting alternatives, the best choice is one that is least likely to overstate assets and profits. Max. 2
- The company should adopt the lower of cost or net realisable value in the valuation of inventory.
- The loss of the damaged inventory \$8020 (\$58 000 - \$49 980) should be recognised in the income statement for the year ended 31 December 2014.

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

12. 2015.P2A.Q9(a)

- Accrual concept is violated. 1
- Revenues and expenses are recognised and included in the financial statements when they are earned or incurred, not when they are received or paid. 1
- Therefore, the electricity expenses should be recorded in the financial statements of 2014, though it was still unpaid at the year end. 1

(3)

Max. 2

(3)

(3)

BAFS – Accounting concepts and principles - Answer
13. 2016.P2A.Q4(a)(b)(c)

- (a) It assumes that
 - an entity will continue its operation in the foreseeable future. 1
 - the entity has neither the intention nor the need to liquidate or reduce its scale of operation significantly. 1
- (b) The non-current assets would be valued at their net realisable value / liquidation value. 1
- (c) The historical cost concept has been violated.
 - It states that assets should be recorded at their purchase cost. 2

14. 2017.P2A.Q1

- (a)
 - i. Business entity 1
 - ii. Timeliness 1
 - iii. Going concern 1
 - iv. Money measurement 1
 - v. Realisation 1

(b) Materiality

- Materiality refers to the impact of an item's nature and size on the company's financial operations. / Information is material if omitting it or mis-stating it could influence decisions that users make on the basis of the reported financial information. 1
- The calculator is insignificant in value in view of a multinational corporation's size of operations, and hence it should be recorded as an expense in the year of purchase. 1

1
1
1
1
1
(5)

1
1

1
1
8 marks

15. 2018.P1B.Q3(b)

- (b) Going concern assumption: assumes that an entity will continue its operation in the foreseeable future, the entity has neither the intention nor the need to liquidate or reduce its scale of operations significantly 1
- The non-current assets should be valued at their liquidation value/ net realisable value 1

16. 2018.P2A.Q7(b)(c)

- (b) Realisation principle (**Accrual concept ✗**)
 - Revenue should be recognised only when goods are dispatched and accepted by the customers, or the services have been provided 1
 - A purchase order should be recognised when goods are delivered to the customers, so the sales revenue should be recognised in 2018 1
- (c) Reasons:
 - Facilitate intra- and inter-comparison of the performance of the business 1
 - Avoid manipulation of profits by changing the accounting policy 1

1
1
1
(3)

1
1

BAFS – Accounting concepts and principles - Answer
17. 2019.P2A.Q5(b)

(b) - Matching	1
- Links revenue with its relevant expenses or costs	1
- The use of equipment could generate revenue for the business, the cost of the equipment should therefore be allocated over its estimated useful life.	1
	(3)
	<u>11 marks</u>

Marking notes:

(b) Accounting concept

• Wrong spelling of the concept: no marks, continue marking the explanation

• Missing/Wrongly identified the concept: no need to mark the explanation

不予評分：企業應在獲取利潤的同時記錄因其所招致的費用。利潤 =/= 收益

18. 2020.P1B.Q2(b)

(b) - Consistency	1
- Chan's firm should not change the valuation method as the accounting treatment of items within each accounting period from one period to another should be the same, unless a change in accounting treatment is necessary or will give a more accurate view of a business.	2
	(3)
	<u> </u>

19. 2020.P2A.Q7(d)

(d) Matching concept: links revenue with its related expenses and costs	1
- under absorption costing system, both fixed and variable production costs are included in the cost of goods sold, which allows the matching of revenues with the total production costs when the goods are sold.	1
	(2)
	<u < u=""></u <>