

2016

**SECTION B (30 marks)**

**Part 1 (20 marks)** Answer ALL questions in this part.

1. Annie runs a shop selling bicycles. One day, Annie took one of the bicycles home for her son's use. The cost and selling price of the bicycle are \$500 and \$980 respectively.
  - (a) Prepare the journal entry to record the above event. Narration is not required. (2 marks)
  - (b) Explain, with a relevant accounting principle or concept, why records have to be made in the accounts, as in (a) above. (3 marks)
  
2.
  - (a) Explain how the share price of a property development company in Hong Kong changes in a booming local economy. (3 marks)
  - (b) Suggest two ways in which investors can use the Hang Seng Index to make investment decisions. (4 marks)
  
3. Carlo operates a reputable restaurant chain in Italy with customers from all over the world. He is planning to establish branches in Hong Kong. A business consultant suggests him to operate the branches in the form of franchising.
  - (a) Give two reasons why Carlo should establish the branches in the form of franchising instead of setting up his own restaurants in Hong Kong. (4 marks)
  - (b) Explain one legal factor and one cultural factor that Carlo should consider when setting up branches in Hong Kong. (4 marks)

2016

Part 2 (10 marks) Answer ONE question in this part.

Based on the following information, answer either Question 4 or 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	<u>60 000</u>
Gross profit	40 000
Less: General expenses	<u>30 000</u>
Net profit	<u><u>10 000</u></u>

Statement of financial position as at 31 December 2015		
	\$	\$
<b>Non-current assets</b>		20 000
<b>Current assets</b>		
Inventory	34 000	
Cash	<u>6 000</u>	
	40 000	
<b>Less: Current liabilities</b>		
Trade payables	<u>30 000</u>	<u>10 000</u>
		<u><u>30 000</u></u>
Capital, 1 January 2015		37 000
Add: Net profit		<u>10 000</u>
		47 000
Less: Drawings		<u>17 000</u>
		<u><u>30 000</u></u>

Answer ONE question.

70/6

4. (a) Calculate (to two decimal places) the following ratios for the year 2015 for John's supermarket:

- (i) Gross profit ratio
- (ii) Net profit ratio
- (iii) Return on capital employed

(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)

A business consultant advises John to adopt Management by Objectives in his supermarket.

(c) (i) How are objectives set under Management by Objectives in John's supermarket? (1 mark)

(ii) Explain one advantage and one disadvantage of adopting Management by Objectives in John's supermarket. (4 marks)

(Total: 10 marks)

70/6

5. (a) Calculate (to two decimal places) the following for the year 2015 for John's supermarket:

- (i) Working capital
- (ii) Current ratio
- (iii) Liquid ratio

(3 marks)

(b) Briefly comment on the liquidity of John's supermarket as at 31 December 2015. (2 marks)

A business consultant advises John to improve the controlling functions of his supermarket.

(c) (i) What is the purpose of controlling in management? (1 mark)

(ii) List the steps in the controlling process. (4 marks)

(Total: 10 marks)

END OF PAPER

QUESTION 1

(a)	Journal		Marks
	Dr	Cr	
	\$	\$	
Drawings	500		1
Purchases		500	1
(b) - business entity concept			1
- a firm and its owner(s) are separate entities			Max. 2
Takeover of business's inventory by the owner should be recorded in the			
- drawings account so as to decrease the capital amount			
- purchases account so as to avoid overstating the cost of goods sold			
(1 mark for each relevant elaboration, max. 2 marks)			<u>5 marks</u>

QUESTION 2

(a)	Marks
Its share price will increase because	1
- personal income increases	Max. 2
- people are more willing to buy/invest in property	
- the profitability of the property development company increases	
(1 mark for each relevant elaboration, max. 2 marks)	
(b) Ways:	Max. 4
- assess the general performance of shares listed in Hong Kong	
- compare performance of the Hong Kong stock market over time	
- compare performance among different stock markets	
(2 marks for each relevant way, max. 4 marks)	<u>7 marks</u>

QUESTION 3

(a)	Marks
Reasons:	Max. 4
- expansion of the chain in Hong Kong at a lower cost	
- stable income: receive franchise fees regularly and share franchisees' profits	
- easy access to the Hong Kong market: franchisees are more familiar with the local business environment	
(2 marks for each relevant reason, max. 4 marks)	
(b) Legal factors:	Max. 2
- regulations related to restaurant licensing: e.g. Fire Services Ordinance/Building Ordinance	
- other ordinances: e.g. the Minimum Wage Ordinance, the Employment Ordinance, etc.	
(2 marks for each relevant legal factor, max. 2 marks)	
Cultural factors:	Max. 2
- tastes and preferences of the target customers in Hong Kong	
- demographic structure/ population structure of Hong Kong: e.g. age, gender, race, etc.	
(2 marks for each relevant cultural factor, max. 2 marks)	<u>8 marks</u>



2016

## QUESTION 4

Marks

- (a) (i) Gross profit ratio =  $\frac{\$40\,000}{\$100\,000} \times 100\% = 40\%$  1
- (ii) Net profit ratio =  $\frac{\$10\,000}{\$100\,000} \times 100\% = 10\%$  1
- (iii) Return on capital employed =  $\frac{\$10\,000}{(\$30\,000 + \$37\,000)/2} \times 100\% = 29.85\%$  1
- (b) John's supermarket:
- has higher gross profit ratio but lower net profit ratio 1
  - is poor in controlling expenses /administrative arrangements 1
- (c) (i) Management by Objectives:
- the superiors and the subordinates set the firm's objectives together 1
- (ii) Advantages: Max. 2
- subordinates are more committed as they have better understanding of the firm's objectives
  - facilitates control on subordinates' progress
- (2 marks for each relevant advantage, max. 2 marks)
- Disadvantages Max. 2
- time-consuming
  - increased workloads of superiors and subordinates
- (2 marks for each relevant disadvantage, max. 2 marks).

10 marks

2016

## QUESTION 5

Marks

- (a) (i) Working capital =  $\$40\,000 - \$30\,000 = \$10\,000$  1
- (ii) Current ratio =  $\frac{\$40\,000}{\$30\,000} = 1.33 : 1$  1
- (iii) Liquid ratio =  $\frac{\$6000}{\$30\,000} = 0.20 : 1$  1
- (b) - The liquidity of John's supermarket is poor due to the low current ratio and liquid ratio 1
- it has difficulty in meeting its immediate debts
  - its current assets are tied up in inventory
- (1 mark for each relevant point, max. 1 mark) Max. 1
- (c) (i) Controlling: 1
- ensures that activities are in line with the plan
- (ii) Step 1: set performance standards Max. 4
- Step 2: measure actual performance
- Step 3: compare actual performance with the standards
- Step 4: take corrective actions
- (1 mark for each correct step in sequence, max. 4 marks)

10 marks

END OF PAPER 1

2015

SECTION B (30 marks)

Part 1 (20 marks) Answer ALL questions in this part.

1. Annie operates a small guest house on Lamma Island for foreign travellers. She sets up an Internet booking system for the guest house, with the following goal:

*"To increase the number of Internet bookings substantially in the near future"*

- (a) Briefly explain two characteristics of a SMART goal that are missing from the above goal. (4 marks)
- (b) Explain one political factor and one legal factor that may affect Annie's business. (4 marks)

2. (a) Explain the consistency principle in accounting. (2 marks)
- (b) A firm bought a motor van for business use and paid \$175 000 from its bank account. The list price of the motor van was \$200 000 and a discount of \$25 000 was given by the vendor.

State the amount to be recorded for the motor van in the books of the firm. Explain your answer with a relevant accounting principle or concept. (3 marks)

3. Calvin is a retail investor. He invested \$200 000 to buy shares listed on the Hong Kong Stock Exchange through a licensed stockbroker in Hong Kong. As the broker defaulted, Calvin was not able to get back his investment. He therefore applied to the Investor Compensation Fund to claim the loss.

- (a) Explain two ways in which investing in shares might benefit an investor. (4 marks)
- (b) (i) In the above case, Calvin has fulfilled the conditions to receive compensation from the Investor Compensation Fund. Give any two of them. (2 marks)
- (ii) What is the maximum amount of compensation that Calvin can get from the Investor Compensation Fund? (1 mark)

Part 2 (10 marks) Answer ONE question in this part.

- 2015 4. Peter is the sole owner of a garment firm. The following balances as at 31 December 2014 were obtained from the firm:

	\$
Bank loan (repayable in September 2015)	430 000
Capital, 1 January 2014	?
Cash at bank	398 000
Fixed deposit (6-month)	180 000
Inventory	210 000
Motor vehicles	986 000
Net profit for the year	82 000
Trade payables	383 000
Trade receivables	320 000

- (a) Prepare a statement of financial position for Peter's business as at 31 December 2014. (5 marks)

Peter plans to expand the business and set up three departments to take care of the garment business in Hong Kong, Macau and Shenzhen respectively. A business consultant reminds him that other forms of departmentalisation may also be considered.

- (b) State the form of departmentalisation planned by Peter. (1 mark)
- (c) Briefly describe two other forms of departmentalisation that could be adopted by Peter's business. (4 marks)

- 2015 5. John commenced a trading firm on 1 January 2014 as the sole owner. The financial information of the firm for the year ended 31 December 2014 is as follows:

	\$
Carriage inwards.	25 500
Carriage outwards	23 600
Inventory, 31 December 2014	88 000
Purchases	227 500
Rental expenses	128 000
Returns outwards	9 230
Sales	492 000
Salaries	120 000

- (a) Prepare an income statement for John's business for the year ended 31 December 2014. (5 marks)

To raise money for expansion, John wants to change the form of business ownership of the firm. He plans to invite five people to invest in and join the business as owners. After expansion, all owners shall have limited liability for the firm. Their ownership cannot be freely transferred.

- (b) According to the above information, which form of business ownership will John adopt for the expansion? (1 mark)
- (c) Apart from the restriction in ownership transfer, suggest two other disadvantages for the form of business ownership mentioned in (b), as compared to a sole proprietorship. (4 marks)

END OF PAPER

2015

2015

## QUESTION 4

Marks

(a)

Peter

## Statement of financial position as at 31 December 2014

	\$	\$	
<b>Non-current assets</b>			
Motor vehicles		986 000	½
<b>Current assets</b>			
Inventory	210 000		½
Fixed deposit (6-month)	180 000		½
Trade receivables	320 000		½
Cash at bank	398 000	1 108 000	½
<b>TOTAL ASSETS</b>		<u>2 094 000</u>	
Capital, 1 January 2014 ( <i>balancing figure</i> )		1 199 000	½
Add: Net profit		82 000	½
		<u>1 281 000</u>	
<b>Current liabilities</b>			
Trade payables	383 000		½
Bank loan (repayable in September 2015)	430 000	813 000	½
<b>TOTAL CAPITAL AND LIABILITIES</b>		<u>2 094 000</u>	(5)

(b) Departmentalisation by location

1

(c) Other forms:

Max. 4

- By product: e.g. set up different departments to take care of the garment business for men's, women's and kids' wears respectively
- By function: e.g. set up different departments to take care of production, marketing, human resource and finance respectively

(2 marks for each relevant form of departmentalisation, max. 4 marks)

10 marks

QUESTION 5

Marks

2015

(a)

John

Income statement for the year ended 31 December 2014

	\$	\$	
Sales		492 000	½
Less: <u>Cost of goods sold</u>			
Purchases	227 500		½
Add: Carriage inwards	<u>25 500</u>		½
	253 000		
Less: Returns outwards	<u>9 230</u>		½
	243 770		
Less: Closing inventory	<u>88 000</u>	<u>155 770</u>	½
Gross profit		336 230	½
Less: <u>Expenses</u>			
Carriage outwards	23 600		½
Rental expenses	128 000		½
Salaries	<u>120 000</u>	<u>271 600</u>	½
Net profit		<u>- 64 630</u>	(5)

(b) Private limited company

1

(c) Other disadvantages:

Max. 4

- profit tax rate is higher resulting in lower distributable profits
- more requirements in setup procedures/ higher setup cost
- separation of ownership and management and thus owners may not be able to control daily operations

(2 marks for each relevant disadvantage, max. 4 marks)

10 marks

END OF PAPER 1



2014 SECTION B (30 marks)

Part 1 (20 marks) Answer ALL questions in this part.

1. Patrick, Queenie and Ronald jointly set up a business in the form of a limited partnership. The partnership agreement contains the following terms:
- Only Queenie and Ronald will contribute capital.
  - Patrick and Ronald have no involvement in the daily operations of the partnership.
  - If the partnership is liquidated, only Queenie has to pay the outstanding debts of the partnership, using her personal funds.
- (a) Identify the nominal partner in this partnership. (1 mark)
- (b) Suggest two contributions that a nominal partner could make to a partnership. (4 marks)
2. Superfast Company provides software and system development services and has about 100 employees. Daniel, the owner and general manager of the firm, is a computer specialist and has involved himself heavily in the software and system development work. A business consultant advised him that as the general manager of the company, he should be aware of the relative importance of technical, conceptual and interpersonal skills. Also, the company should set up a marketing department to help reduce his workload.
- (a) Which of the three types of management skills mentioned above is the most important for Daniel as the general manager of Superfast Company? Explain why. (3 marks)
- (b) State two functions of a marketing department in Superfast Company. (2 marks)
3. (a) Tony is the sole owner of a toy trading business. State the book of original entry for the recording of each of the following transactions of Tony's business:
- (i) Sold toys to customers on credit
  - (ii) Received a credit note for toys returned
  - (iii) Paid salaries to office clerks by autopay (3 marks)
- (b) From the accounts for recording the transactions in (a), identify one example for each of the following types of ledger accounts:
- (i) Real account
  - (ii) Nominal account (2 marks)

2014

4. Tom plans to get married and buy a flat three years later. The budgeted price of the flat is \$3 000 000. The down payment will be 30% of the flat's price. To save up for the down payment, Tom decides to make a time deposit in a bank.
- (a) If the bank offers an annual interest rate of 2% for the time deposit, how much money does Tom have to deposit today? (Note: Interest is compounded annually. Correct all amounts to the nearest dollar.) (2 marks)
- (b) A friend of Tom advises him to invest the sum of money in securities for higher return. Given that Tom needs the amount three years later for the down payment on the flat, would you advise him to invest in government bonds or ordinary shares? Explain why. (3 marks)

Part 2 (10 marks) Answer ONE question in this part.

2014

5. Mike sells imported tableware to restaurants. The following balances were obtained from the books of accounts as at 31 December 2013:

	\$
Accounts payables	15 000
Accounts receivables	27 000
Bank loan (repayable in March 2015)	22 000
Bank overdraft	11 000
Capital, 1 January 2013	?
Furniture and fixtures	63 000
Inventory	7 000
Net profit for the year	3 800
Rental deposit	20 000

- (a) Prepare for Mike the statement of financial position as at 31 December 2013. (5 marks)

Mike learns from a research report that the materials of some of his inventory may be harmful to people's health. He plans to give away these items as free gifts to his customers, without mentioning the potential health hazards. His wife warns him that this is an unethical practice and will adversely affect his business.

- (b) If Mike decides to give away those items as planned, explain two possible adverse impacts on his business. (4 marks)
- (c) Apart from customers, identify another stakeholder of Mike's business. (1 mark)

2014/6.

Sunshine Department Store had the following financial information for the year ended 31 December 2013:

	\$ .
Carriage inwards :	9 000
Inventory, 1 January 2013	80 000
Inventory, 31 December 2013	60 000
Purchases	120 000
Rent and rates	48 000
Return inwards	2 000
Sales	268 000
Sundry expenses	30 000

- (a) Prepare an income statement for Sunshine Department Store for the year ended 31 December 2013. (5 marks)

Two managers of the same rank, David and Ellen, together supervise all the shop assistants. One day, an assistant in the sportswear section took sick leave and David assigned a newly employed assistant to take her place. He asked her to serve customers in the section for the rest of the day. At noon, Ellen asked this assistant to deliver a document to a supplier.

- (b) (i) What principle of effective management has been violated in the above case? (1 mark)
- (ii) Suggest two problems that might arise when the principle in (i) is violated. (4 marks)

END OF PAPER

2014

PART 1

2014

QUESTION 1

Marks

(a) Nominal partner: Patrick

1

(b) Contributions:

Max. 4

- provide professional advice
  - enhance reputation of the business
  - strengthen business linkages
- (2 marks for each relevant contribution, max. 4 marks)

5 marks

2014

QUESTION 2

Marks

(a) Conceptual skill

1

- A general manager should possess the ability to think creatively and to analyse and understand complicated and abstract ideas in order to perform management functions such as planning and organising

2

(b) Functions:

Max. 2

- identify and/or create market opportunities
  - determine market position
  - select target market
  - formulate and evaluate marketing strategies (4Ps)
  - implement and monitor marketing activities
  - manage customer relationship
- (1 mark for each relevant function, max. 2 marks)

5 marks

2014

QUESTION 3

Marks

(a) Books of original entry:

- (i) Sales Day Book / Sales Journal
- (ii) Return Outwards Day Book / Return Outwards Journal
- (iii) Cash Book

1

1

1

(b) (i) Real account:

Max. 1

- Cash at bank, trade receivables, trade payables
- (1 mark for each relevant example, max. 1 mark)

(ii) Nominal account:

Max. 1

- sales, return outwards, office salaries
- (1 mark for each relevant example, max. 1 mark)

5 marks

2014

PART 1

2014

QUESTION 1

Marks

- (a) Nominal partner: Patrick
- (b) Contributions:
- provide professional advice
  - enhance reputation of the business
  - strengthen business linkages
- (2 marks for each relevant contribution, max. 4 marks)

1

Max. 4

5 marks

2014

QUESTION 2

Marks

- (a) Conceptual skill
- A general manager should possess the ability to think creatively and to analyse and understand complicated and abstract ideas in order to perform management functions such as planning and organising
- (b) Functions:
- identify and/or create market opportunities
  - determine market position
  - select target market
  - formulate and evaluate marketing strategies (4Ps)
  - implement and monitor marketing activities
  - manage customer relationship
- (1 mark for each relevant function, max. 2 marks)

1

2

Max. 2

5 marks

2014

QUESTION 3

Marks

- (a) Books of original entry:
- (i) Sales Day Book / Sales Journal
  - (ii) Return Outwards Day Book / Return Outwards Journal
  - (iii) Cash Book
- (b) (i) Real account:
- Cash at bank, trade receivables, trade payables
- (1 mark for each relevant example, max. 1 mark)
- (ii) Nominal account:
- sales, return outwards, office salaries
- (1 mark for each relevant example, max. 1 mark)

1

1

1

Max. 1

Max. 1

5 marks



2014

2014

QUESTION 6

Marks

Sunshine Department Store		
Income statement for the year ended 31 December 2013		
	\$	\$
Sales		268 000
Less : Return inwards		<u>2 000</u>
Net sales		266 000
Less : <u>Cost of goods sold</u>		
Opening inventory	80 000	
Add: Purchases	120 000	
Carriage inwards	<u>9 000</u>	
	209 000	
Less: Closing inventory	<u>60 000</u>	<u>149 000</u>
Gross profit		117 000
Less: <u>Expenses</u>		
Rent and rates	48 000	
Sundry expenses	<u>30 000</u>	<u>78 000</u>
Net profit		<u><u>39 000</u></u>

- (b) (i) Unity of command 1
- (ii) Problems: Max. 4
- contradictory instructions will cause confusion to the subordinates
  - unclear chain-of-command / line of authority will cause conflicts between the managers
- (2 marks for each relevant problem, max. 4 marks)

10 marks

END OF PAPER 1

2013



SECTION B (40 marks)

1. (a) Many people are using credit cards to purchase goods and services. Explain two benefits for customers of using credit card. (4 marks)

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(b) Explain one reason why credit card companies are more willing to issue credit cards to applicants with good personal credit records. (2 marks)

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2. Ken owns a fast-food chain business with more than 50 outlets in Hong Kong. He is going to expand his business by offering delivery services all over Hong Kong. Wendy, a business consultant, recommends Ken to establish a telephone hotline centre in the Mainland to take orders from customers in Hong Kong and direct the Hong Kong outlets to deliver the meals.

Explain three types of external factors that would affect Ken's decision on whether to set up a telephone hotline centre in the Mainland. (6 marks)

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2013

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

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

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

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(b) The owner of a firm, Miss Lee, bought a notebook computer of \$12 000 for office use. She heard from the dealer that its market value at that time was \$14 000. The bookkeeper recorded the transaction as follows: (3 marks)

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

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4. Information management can support the human resources department of a company in different ways. List three of them. (3 marks)

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2013

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

2013

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

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

(8 marks)

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2013

6. Explain three ways in which division of work could enhance the efficiency of a manufacturing company. (6 marks)

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7. In the sales department of a firm, the manager and the sales representatives discussed and agreed on the sales target for a quarter. Throughout the quarter, the manager met the sales representatives regularly to discuss problems encountered and gave appropriate support. At the end of the quarter, the manager reviewed the performance of the sales representatives and gave them rewards and feedback.

(a) Name the principle of effective management applied in the above sales department. (1 mark)

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(b) From the sales department's point of view, explain two advantages of applying the principle of effective management named in (a). (4 marks)

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END OF PAPER

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2013	QUESTION 1	Marks
	(a) Benefits:	4
	<ul style="list-style-type: none"> <li>- defer payment: e.g. can purchase goods or services without paying cash instantly</li> <li>- safety: e.g. do not need to carry large amounts of cash</li> <li>- convenience: e.g. worldwide acceptance</li> <li>- privileges: e.g. can enjoy discounts or special gifts</li> </ul> (2 marks for each relevant benefit, max. 4 marks)	
	(b) Reasons:	2
	<ul style="list-style-type: none"> <li>- higher chance of collecting debt on time</li> <li>- lower default risk</li> </ul> (2 marks for each relevant reason, max. 2 marks)	
	Total:	<u>6 marks</u>

2013	QUESTION 2	
	External factors:	6
	<ul style="list-style-type: none"> <li>- technological, e.g. reliability of telecommunication system</li> <li>- social, e.g. language used by operators</li> <li>- economic, e.g. wages level, cross-border telephone charge</li> <li>- legal, e.g. labour law, licensing regulations</li> <li>- physical, e.g. geographical dispersion</li> <li>- political, e.g. political stability</li> </ul> (2 marks for each relevant factor, max. 6 marks)	
	Total:	<u>6 marks</u>

2013	QUESTION 3	
	(a)	3
	<ul style="list-style-type: none"> <li>- business entity concept</li> <li>- it assumes a business is separated from its owner</li> <li>- private transactions of the owner should not be recorded in the books of the business</li> <li>- the bookkeeper should record it as drawings in the books</li> </ul> (1 mark for each relevant point, max. 3 marks)	
	(b)	3
	<ul style="list-style-type: none"> <li>- historical cost principle</li> <li>- assets should be recorded at their cost of acquisition or production</li> <li>- subsequent changes in their market values are to be ignored</li> <li>- the bookkeeper should record \$12 000 as the cost of the notebook computer in the books</li> </ul> (1 mark for each relevant point, max. 3 marks)	
	Total:	<u>6 marks</u>

2013	QUESTION 4	
	Ways:	3
	<ul style="list-style-type: none"> <li>- store personnel data</li> <li>- handle payroll</li> <li>- take attendance</li> <li>- facilitate staff placement</li> </ul> (1 mark for each relevant way, max. 3 marks)	
	Total:	<u>3 marks</u>



2012

SECTION B (40 marks)

(6 marks)

1. Explain three limitations on the use of financial statements.

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2. Mr Ho is a toy manufacturer. Recently, he has received a number of complaints from his customers about paint peeling off from his toys. A management consultant tells Mr Ho that having good operations management can reduce the number of defective items.

In what ways could operations management help Mr Ho to reduce the number of defective items? Give two ways. (4 marks)

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3. Mr Au is an inexperienced investor and the majority of his investments are in the shares of a single company. His son suggests that he should switch part of his investments to a mutual fund or other less risky financial instruments with stable returns.

(a) Briefly explain one purpose that Mr Au could achieve through investing in a mutual fund. (2 marks)

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2012

(b) List two less risky financial instruments with stable returns for Mr Au. (2 marks)

4. After discussion, the board of directors of a company resolves to freeze the salaries of its staff for one year starting from 1 July 2012. Mr Kan, the Human Resources Manager, was assigned to deliver the message to the staff of the company. He drafted the following email:

From: Kan  
To: All Staff  
Subject: Salary

Dear all,

As you all know, the global economy is deteriorating and many people around the world have lost their jobs. You, especially those with poor qualifications and poor working attitudes, should be glad that you haven't been fired by the company. As the company is already being kind in not laying you off, please don't talk about the salary issue in the future as this has been discussed and finalised.

Kan

List two principles of effective communication and give an example of each from the above email to explain why the message is not effectively communicated in this case. (4 marks)

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2012

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

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

(a) Prepare the statement of financial position for Yip's business as at 31 December 2011. (5 marks)

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2012

(b) Calculate (to two decimal places) the gross profit ratio of Yip's business for 2011. (2 marks)

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

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

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(b) Give two types of stakeholders in Peter's business and explain the adverse effect of the closure on each of them. (4 marks)

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2012  
QUESTION 1

Marks

6

Limitations:

- information is mostly quantitative
  - data relate to past events only
  - different use of accounting methods and policies makes intra-company comparison difficult
  - neglect of time value of money hinders users to do inter-period comparison of the company
- (2 marks for each relevant limitation, max. 6 marks)

Total: 6 marks

2012  
QUESTION 2

Ways:

- inventory management: ensure a reasonable stock level to avoid wear and tear from over-storage
  - revision of design of the production process: to locate and correct the problem that leads to the defect
  - quality control: set standards to ensure goods provided are of high quality
- (2 marks for each relevant ways, max. 4 marks)

4

Total: 4 marks

2012  
QUESTION 3

(a) Purposes:

- risk diversified
  - simplified assets management
- (2 marks for each relevant purpose, max. 2 marks)

2

(b) Suggestions:

- fixed time deposit
  - government bonds
  - exchange fund bills
- (1 mark for each relevant suggestion, max. 2 marks)

2

Total: 4 marks

2012  
QUESTION 4

Principles and their examples:

- courtesy: the tone is rude and offensive (e.g. negative description of staff's educational background)
  - concreteness: the purpose is not clearly stated (e.g. suspension on staff's salary)
  - completeness: important information has been omitted (e.g. the period for the suspension of salary)
- (2 marks for each relevant point, max. 4 marks)

4

Total: 4 marks

7012  
QUESTION 5

Marks

(a) Statement of financial position as at 31 December 2011

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

(Presentation: ½)  
(5)

(b) Gross Profit ratio:  

$$\frac{[\$109\,000 - (\$34\,000 + \$76\,100 - \$42\,000)]}{\$109\,000} \times 100\%$$

$$= 37.52\%$$

	1
	1
	<u>(2)</u>
	<u>Total: 7 marks</u>

2012  
QUESTION 6

(a)

- \$38 000	1
- going concern	1
- as the business discontinued its operation in the foreseeable future, assets should not be valued at historical cost but current market value	1
	<u>(3)</u>

(b) Adverse effects to

- lenders: may fail to collect all their money lent to the business	4
- customers: may fail to receive products / services they paid for	
- suppliers: may fail to collect all the payments for their goods sold or services provided	
- government: may fail to collect the tax due	

(2 marks for each relevant point, max. 4 marks)

Total: 7 marks

2012

QUESTION 7

Marks

(a) Reasons:

4

- share of risk / workload
  - more sources of capital
  - more expertise / innovative ideas
- (2 marks for each relevant reason, max. 4 marks).

(b) Criteria and its examples:

4

- specific: e.g. earn a definite amount of profit
  - time-based: e.g. earn a certain amount of profit in the first year of operations
  - measurable: e.g. achieve a 10% increase in profit
  - challenging but attainable: e.g. earn a reasonable amount of profit
- (2 marks for each relevant point, max. 4 marks)

Total: 8 marks

END OF PAPER 1