

South Tuen Mun Government Secondary School  
BAFS\_PA\_DSE\_I\_2016

Name: \_\_\_\_\_

Class: \_\_\_\_\_ ( )

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)

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>

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)

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)

**QUESTION 1**

	<b>Journal</b>		<b>Marks</b>
(a)	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 4****Marks**

- (a) (i) Gross profit ratio =  $\$40\,000/\$100\,000 \times 100\% = 40\%$  1
- (ii) Net profit ratio =  $\$10\,000/\$100\,000 \times 100\% = 10\%$  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**QUESTION 5****Marks**

- (a) (i) Working capital =  $\$40\,000 - \$30\,000 = \$10\,000$  1
- (ii) Current ratio =  $\$40\,000/\$30\,000 = 1.33 : 1$  1
- (iii) Liquid ratio =  $\$6000/\$30\,000 = 0.20 : 1$  1
- (b) - The liquidity of John's supermarket is poor due to the low current ratio and liquid ratio 1
- Max. 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)
- (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