

Elective Part -- Business Management Module

3(a) Financial Management

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20	21	22	23
Financial Analysis	(i) Explain the role of financial management in running an organization.												
	<ul style="list-style-type: none"> - (ii) Assess business performance from a range of accounting ratios in terms of profitability, liquidity, solvency and management efficiency. - discuss the limitations of financial analysis - The ratios required are: <i>gross profit ratio, net profit ratio, working capital/current ratio, quick/liquid/acid test ratio and return on capital employed, trade receivables turnover, inventory turnover, trade payables turnover, total assets turnover and gearing ratio</i> 		√		√	√	√	√	√	√			

2020-Q2 (a) What does the gearing ratio measure? (2 marks)

2020-Q6 (a) calculate the trade payables turnover (in times, to two decimal places) of sum Kee for 2019. (2 marks)

2019-Q4

(a) Calculate the **inventory turnover**

2018-Q4a

Calculate the **trade receivables turnover** (to 2 decimal places) of the firm for the year 2017. (2 marks)

2017-Q7 (a) Describe the **aspects** of the airline company's performance that could be evaluated using accounting ratios. (8 marks)

2016-Q1 Outline two **limitations** of using **accounting ratios** to **assess** the performance of a company. (4 marks)

2015-Q7

(a)(i) Calculate the **total assets turnover** of Sunlight Fitness for 2013 and 2014.

(a)(ii) Give one reason for the **change** in total assets turnover in (i) above.

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20	21	22	23
Budgeting -Calculation of variances is not required	(i) Explain the purposes of budgeting .					√							
	(ii) Describe the usefulness and limitations of budgetary control.	√			√			√					
	(iii) Identify the causes of budgeting variance and propose remedial action .		√			√			√	√			

2020-Q7 The operations manager found that both the material variance and labour variance of last quarter were unfavourable. (A company producing and selling toys) (b) Suggest ways to deal with unfavourable material variance and labour variance. (10 marks)

2019-Q6 (bi) unfavourable sales-volume variance

2018-Q5b) Describe two limitations of using **budgetary control** for the food truck business. (4 marks)

2016-Q5 (a) **Budgeting** is an important **financial function** in a company. Explain two **purposes** of budgeting. (4 marks)

(b) List two causes of a **favourable sales variance**. (2 marks)

2015-Q1) Describe three **limitations of using budgetary control** to assess the performance of a sales department (6 marks)

2013-Q9 A retail chain uses **accounting ratios** and **budget variance analysis** to evaluate its performance.

(b) Explain the possible causes of **budget variance** in the retail chain. (8 marks)

2012-Q5 With reference to any three management functions, explain how **budgeting** is useful to the management of a Company. (6 marks)

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20	21	22	23
Sources of Financing -Details of the features of financing instruments are not required	(i) Compare different sources of financing : debt and equity financing, short-term and long-term financing, and internal and external financing.	√	√	√			√		√	√			
	(ii) Apply the basic principles for selecting financing methods.				√								

2020-Q2 (b) Explain two advantages of using equity financing over debt financing. (4 marks)

2019-Q5b

- (i) reasons not to **borrow** further from banks
(ii) **long-term financing / disadvantages**

2017-Q5

- (a) List three types of methods that Marco could use to **finance a five-year expansion plan** (long term use of money). Give one **disadvantage** of each of them. (6 marks)

2015-Q8

- (b) Explain the **criteria** that the retail chain could use to evaluate whether to use **debt or equity financing** (12 marks)

2014-Q7

- (c) What are the problems if Petal Airways finances the purchase of planes for the **budget airline** with a **short-term loan**? Describe two of them. (4 marks)

2013-Q7

- (d) List three **sources of capital for raising \$100 million** to finance the setting up of the organic food restaurants. (3 marks)

2012-Q7

- Suggest three **sources of funds for the above takeover** (which involves a substantial amount of money). Give a reason for each of your suggestions

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20	21	22	23
Capital Investment Appraisal - Calculation of IRR and ARR is not required	(i) Evaluate financial and non-financial factors affecting capital investment decisions.												
	(ii) Apply the basic capital investment appraisal methods to evaluate capital projects: payback period, net present value, internal rate of return and accounting rate of return.	√	√				√		√	√			
	(iii) Compare the usefulness and limitations of different capital investment appraisal methods .			√					√				

2020-Q4 The initial cost of the development project (develop a new product line) is \$540 000 and it is expected to bring net cash flows of \$250 000, \$200 000, and \$150 000 at the end of the next three years respectively.

(a) (i) calculate the **payback period** of the development project (to one decimal place). (2 marks)

(b) (ii) Other than the payback method, explain one **capital investment appraisal method** that also uses net cash flows for the evaluation of projects. (2 marks)

2019-Q8

(b) Analyse the **limitation** of different capital investment appraisal methods.

2019-Q5

(a) Internal rate of return method (IRR)

2016-Q6

(c) Give two reasons for using the **Net Present Value (NPV)** method instead of the **Payback method** to evaluate the **online shopping project**. (4 marks)

2017-Q6

(ci) calculate the **Payback period** of the robotic system(2 marks)

(cii) calculate the **NPV** of the robotic system(2 marks)

(d) Based on the **net present value** calculated in(c)(ii) above, explain whether the robotic project should be adopted, (2marks)

(e) Other than the payback period methods and the net present value method, suggest and explain one other **capital investment appraisal** methods for evaluating the robotic system project. (2 marks)

2014-Q8

(b) The jewellery retail chain is going to open a new shop. It is considering whether to buy or rent the shop premises. Describe the **various capital investment appraisal** methods that can be used to evaluate this decision. (10 marks)

2013-Q8

(d)(i) Calculate the **payback period** of the **on-line shopping project** (1 mark)

(d)(ii) Give two reasons why it is **not appropriate** to use the **payback period method** to evaluate the **on-line shopping project**. (4 marks)

(e)(i) Based on Raymond's estimates of the **cash flows** for the on-line shopping project, and assuming a discount rate of 8% per annum, calculate the **net present value(NPV)** of the project (to the nearest dollar). Show your workings. (2 marks)

(e)(ii) According to your calculation in(e)(i), explain whether the project should be adopted, (2marks)

2012-Q8

Training of front-line staff is important to banks.

(b) A large bank is considering buying an expensive computer system to be used for training its frontline staff. Assume the **Net Present Value (NPV)** method is used to evaluate the purchase of the computer training system, identify the **variables of the NPV formula** and illustrate the meaning of each with an example. (10 marks)

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20	21	22	23
Working Capital Management -Preparation of cash budget is not required	(i) Explain the importance of working capital management. describe the operating cycle and cash conversion cycle							√					
	(ii) Describe the basic principles of cash management and the relevance of cash budgeting.			√		√							
	(iii) Analyse the factors affecting the formulation of accounts receivable and accounts payable policies. the elements of a credit policy, including credit terms, credit standard (5Cs: capital, capacity, collateral, condition and character) and collection policy	√	√		√			√	√		√		

2020-Q6 (b) With reference to **any three components of working capital**, suggest one way for each component to improve the cash position of Sum Kee. (6 marks)

2018-Q5b ai) Describe the **operating cycle** of the food truck business. (2 marks)

aii) Give one reason why the **cash conversion cycle** of the food truck business is relatively short. (2 marks)

2018-Q4b

With reference to your answer to (a) above, comment on any two elements of the **credit policy** of the firm. (4 marks)

2017-Q2

Explain any three components of the **(5Cs)** of the credit standard that a bank consider when deciding whether to grant credit to a borrower. (6 marks)

2016-Q6

(b) From the perspective of **cash management**, suggest two ways to **cope with** Ming Kee's **liquidity** problem.(4 marks)

2015-Q6

(a) With reference to any **two elements of credit policy**, explain how Lucky can **tighten its credit** to retailers. (4 marks)

2014-Q6

(d) From the perspective of **working capital management**, suggest two ways in which Grassland can improve its **cash flows**.(4 marks)

2013-Q2

Explain three types of **factors (5Cs)** that a company would consider to evaluate the **risk of granting credit** to a customer. (6 marks)

2012-Q7

(d) List any two elements of **credit policies**.

Suggest one way in which Skyline Airways can use each of these two elements to reduce the delays in payment by travel agencies. (4 marks)

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20	21	22	23
Working Capital Management	iv) Explain the objectives of inventory management and apply simple inventory control techniques: Economic Order Quantity (EOQ) and re-order level methods.	√		√		√		√	√	√			

2020-Q5d Annual demand is a factor affecting the **re-order level** of coffee beans. Give one other factor and explain how it would affect re-order level. (2 marks)

2019-Q4

- (a) Calculate the **inventory turnover**
- (b) Objective of **inventory management**

2018-Q7

a) Describe the **cost components** for determining the **EOQ** of bicycles and explain how the total inventory cost can arrive at its minimum under this model. (8 marks)

2016-Q6

Using **the Economic Order Quantity model (EOQ)**, calculate the optimal order quantity of beverages (in boxes) for Ming Kee. Show your workings (2 marks)

- (ii) Based on the optimal order quantity calculated in (a) (i), state which **inventory cost** component contributes to the **reduction in total inventory cost**. Explain why. (2 marks)
- (b) From the perspective of **cash management**, suggest two ways to **cope with** Ming Kee's **liquidity** problem.(4 marks)
- (c) Give two reasons for using the **Net Present Value (NPV)** method instead of the **Payback method** to evaluate the **online shopping project**. (4 marks)

2014-Q2

a) With a diagram, show how the **Economic Order Quantity (EOQ)** of a product is determined. (2 marks)

The following data relate to a product:

Annual demand: 7200 units Lead time: 8 days

Assuming there are 360 days in a year and no safety stock is kept, calculate the **re-order level** of the Product. Show your calculations. (2 marks)

2012-Q6

- (a)(i) Explain how the use of the **EOQ model** can **reduce inventory cost** (3 marks)
- (a)(ii) Using the EOQ model, calculate the **optimal order quantity** of oysters (in dozens) for Platine (French restaurant). Show your workings. (2 marks)

Topics	Explanatory Notes	12	13	14	15	16	17	18	19	20	21	22	23
Risk Management	(i) Identify different types of risk faced by business firms and analyse their impact on business activities. - Types of risks: <i>insurable vs non-insurable; pure vs speculative</i>	√		√		√	√		√				
	(ii) Demonstrate an understanding of various types of insurance protection available to business. - Types of insurance: <i>comprehensive insurance, motor insurance, fidelity insurance, liability insurance, public liability insurance, employees' compensation insurance</i>			√					√				
	(iii) Explain the following risk management strategies: risk avoidance, risk assumption, risk reduction and risk transfer. <i>apply appropriate risk management strategies to given scenarios</i>	√	√		√	√		√		√			

2020-Q5 a) Suggest two types of risk management strategies Happy café could use to deal with the risk of operating losses mentioned by Francis. (4 marks)

2019-Q3

(a) **Non-insurable risk**

(b) types of **insurance** to cover the risk

2018-Q1

Explain three types of **risk management strategies** that a shipping company may use to deal with the risk of pirate attacks and kidnapping. (6 marks)

2017-Q1

a) Define **pure risk** and **speculative risk**. (2 marks)

b) Briefly explain the two types of **'liability insurance'** a theme park should take out. (4 marks)

2016-Q7

(d) (i) Give a reason why the **risk** of **frequent damage** to dishware is **non-insurable**. (2 marks)

(d) (ii) Suggest two **risk management strategies** **Central wash** could adopt to deal with the risk in (d) (i) above. (4 marks)

2015-Q2

Explain two **risk management strategies** a **convenience store** could adopt to deal with **shoplifting**. (4 marks)

2014-Q7

(d) With reference to any two types of **macro-environmental factors**, explain why the **risk** to the airline business is higher than many other industries (4 marks)

2014-Q1

Explain two types of **insurance** that a **restaurant** should take out. (4 marks)

2013-Q7

(a) Suggest two **risk management strategies** for handling the **risk of food poisoning** faced by Yummy Group. (4 marks)

2012-Q7

(c) Give three reasons why the **risk of economic fluctuation** faced by *Skyline Airways* is **uninsurable**. (6 marks)

2012-Q6

(b) Briefly describe two ways to **hedge against the Euro exchange rate risk**. (4 marks)

Appendix 1 : Formulae of Ratios

$$\begin{aligned} \text{mark-up} &= \frac{\text{gross profit}}{\text{cost of goods sold}} \times 100\% \\ \text{gross profit ratio/margin} &= \frac{\text{gross profit}}{\text{sales}} \times 100\% \\ \text{net profit ratio/margin} &= \frac{\text{net profit before tax}}{\text{sales}} \times 100\% \\ \text{return on capital employed} &= \frac{\text{profit before interest and tax}}{\text{average capital employed}} \times 100\% \end{aligned}$$

Capital employed =

1. Sole proprietorships: capital balance
2. Partnerships: capital account balances + current account balances (if any)
3. Limited companies: non-current liabilities + shareholders' fund

$$\begin{aligned} \text{working capital / current ratio} &= \frac{\text{current assets}}{\text{current liabilities}} : 1 \\ \text{quick / liquid ratio / acid test} &= \frac{\text{current assets - inventories}}{\text{current liabilities}} : 1 \\ \text{inventory turnover (times)} &= \frac{\text{cost of goods sold}}{\text{average inventory}} \\ \text{average trade receivables collection period} &= \frac{\text{average trade receivables}}{\text{credit sales}} \times 365 \text{ days / 12 months} \\ \text{average trade payables repayment period} &= \frac{\text{average trade payables}}{\text{credit purchases}} \times 365 \text{ days / 12 months} \\ \text{trade receivables turnover (times)} &= \frac{\text{credit sales}}{\text{average trade receivables}} \\ \text{trade payable turnover (times)} &= \frac{\text{credit purchases}}{\text{average trade payables}} \\ \text{earnings per share} &= \frac{\text{net profit after tax - preference dividend}}{\text{number of ordinary shares issued}} \\ \text{total assets turnover (times)} &= \frac{\text{sales}}{\text{total assets}} \\ \text{gearing ratio} &= \frac{\text{non-current liabilities + (preference share capital)}}{\text{non-current liabilities + (shareholders' fund)}} \times 100\% \\ \text{dividend cover for ordinary shares (times)} &= \frac{\text{net profit after tax - preference dividend}}{\text{ordinary dividend paid}} \\ \text{price-earnings ratio} &= \frac{\text{current price per ordinary share}}{\text{earnings per share}} \end{aligned}$$

Appendix 2 : Accounting Terminology

Except for term(s) specifically identified in the question or stated in the requirement, the following alternative accounting terminology will be accepted for marking purposes in the HKDSE Business, Accounting and Financial Studies examination.

Accounting Terminology Acceptable for the HKDSE BAFS Examination	
English	Chinese
Statement of financial position / Balance sheet	財務狀況表 / 資產負債表
Year end / Balance sheet date / End of reporting period	年終 / 期末
Income statement / Trading and profit and loss account	損益表 / 購銷及損益帳
Net book value / Carrying amount	帳面淨值
Reducing balance method / Diminishing balance method	餘額遞減法
Depreciation based on usage / Units of production method	按使用量計算折舊
Sales / Turnover / Revenue	銷售 / 銷貨 / 收益
Cost of goods sold / Cost of sales	銷貨成本 / 銷售成本
Selling and distribution expenses / Distribution costs	銷售及運送費用
Allowance for doubtful debts / Provision for bad and doubtful debts	呆帳準備
Net profit / profit (or Net loss / loss) for the year / period	年度淨利/淨虧損
Retained profits / Retained earnings	留存利潤
Accounts receivables / Trade and other debtors	應收帳款
Accounts payables / Trade and other creditors	應付帳款
Trade receivables / Trade debtors	應收貨款
Trade payables / Trade creditors	應付貨款
Other receivables / Other debtors	其他應收帳款
Other payables / Other creditors	其他應付帳款
Inventories / Stocks	存貨
Short term investments / Current investments	短期投資
Equity / Capital and reserves	股東權益 / 資本及儲備
Total equity and liabilities / Total capital and liabilities / Shareholders' Fund and liabilities	股東權益及負債總額 / 資本及負債總額
Short term loans / Short term borrowings / Current portion of long-term borrowings	短期貸款