

香港中學文憑考試

Hong Kong Diploma of Secondary Education Examination

Business, Accounting and Financial Studies

2015

**Examination Report
and Question Papers**
(with marking schemes)



香港考試及評核局
Hong Kong
Examinations and
Assessment Authority

The Examination

Objectives

The public assessment aims to assess candidates' abilities to:

1. demonstrate knowledge and understanding of different areas of business;
2. apply such knowledge and understanding to familiar and novel situations;
3. analyse, synthesise and evaluate information in the context of business decisions, taking into account the integrated and dynamic nature of business problems; and
4. communicate facts, opinions, and suggestions in an effective manner.

Synopsis of curriculum contents

For details, please refer to the Business, Accounting and Financial Studies (BAFS) Curriculum and Assessment Guide (Secondary 4–6) jointly prepared by the Curriculum Development Council and the Hong Kong Examinations and Assessment Authority.

Mode of Assessment

The following table outlines the various components of the public assessment of BAFS in 2015 HKDSE:

Component		Weighting	Duration
Public Examination	Paper 1 Compulsory part	40%	1 hour 15 minutes
	Paper 2 Elective part (choose one only) 2A Accounting module 2B Business management module	60%	2 hours 15 minutes

Public Examination

Paper 1

There will be two sections in this paper: Section A (60 marks) will consist of multiple choice questions and Section B (30 marks) short questions divided into two parts. Candidates are required to answer 3 – 4 compulsory questions in Part 1 (20 marks) and there will be a choice of one out of two questions in Part 2 (10 marks).

Questions will be set on the compulsory part of the curriculum.

Paper 2

Candidates will attempt either Paper 2A or 2B.

Questions will be set on the respective module of the elective part of the curriculum. Candidates are, however, expected to integrate their knowledge and skills learnt in the compulsory part to demonstrate in-depth knowledge of the module.

There will be three sections as follows:

	Paper 2A (Accounting module)	Paper 2B (Business management module)	Remarks
Section A (24 marks)	3 – 4 short questions	4 – 5 short questions	All questions are compulsory.
Section B (36 marks)	2 – 3 application problems	2 case studies	
Section C (20 marks)	Case/Theory questions	Essay questions	Candidates are required to answer one out of two questions.

Candidates are expected to be aware of the impact of standards issued by the Hong Kong Institute of Certified Public Accountants upon the accounting definitions and treatments covered by this curriculum. New or revised standards effective for annual periods beginning on or before *1 January 2012* are applicable to the examination.

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

8.30 am – 9.45 am (1 hour 15 minutes)

This paper must be answered in English

GENERAL INSTRUCTIONS

- (1) There are **TWO** sections, A and B, in this Paper. Section A consists of multiple-choice questions and Section B contains short questions.
- (2) Answer **ALL** questions in Section A. There are two parts in Section B: Answer **ALL** questions in Part 1 and **ONE** of the two questions in Part 2.
- (3) Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the Answer Book. In the Answer Book, start **EACH** question (not part of a question) on a **NEW** page.
- (4) The Answer Sheet for Section A and the Answer Book for Section B must be handed in separately at the end of the examination.

INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)

- (1) Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the 'Time is up' announcement.
- (2) When told to open this book, you should check that all the questions are there. Look for the words '**END OF SECTION A**' after the last question.
- (3) All questions carry equal marks.
- (4) **ANSWER ALL QUESTIONS.** You are advised to use an HB pencil to mark all the answers on the answer sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
- (5) You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question.
- (6) No marks will be deducted for wrong answers.

Not to be taken away before the
end of the examination session

SECTION A (60 marks)

There are 30 questions in this section. Answer **ALL** questions. Choose the **best** answer for each question.

1. A limited partner _____.
- A. is a nominal partner
 - B. is not liable for the debts of a partnership
 - C. does not need to invest money into a partnership
 - D. does not take part in the management of a partnership
2. Which of the following statements about stakeholders of a company is correct?
- A. Competitors are not stakeholders of a company.
 - B. Stakeholders of a company would be affected by the decisions made by the company.
 - C. All stakeholders can share the assets of the company upon its liquidation.
 - D. A client becomes a company's stakeholder only after he/she has settled his/her outstanding debts to the company.
3. Susan is the supervisor of a group of fashion designers in a garment firm. She only gives broad directions to the designers, allowing them to complete the assigned tasks in their own ways.
- Susan is adopting the _____ style of leadership.
- A. autocratic
 - B. centralised
 - C. laissez faire
 - D. participative
4. In October 2014, a firm had the following purchases and returns:
- Oct 2 Purchased goods on credit from Mr Yu for \$2500
 - 9 Purchased goods in cash for \$2000
 - 17 Returned goods to Mr Yu for \$300
 - 26 Purchased goods on credit from Miss Lui for \$3200 with a cash discount of 10% if payment is made within 30 days
- Based on the above information, what should be the total amount of purchases recorded for the month of October 2014 in the Purchases Journal?
- A. \$5380
 - B. \$5700
 - C. \$7400
 - D. \$7700
5. In 2011, the HKSAR Government issued a 3-year iBond. It is a _____ (I) market instrument and was issued in the _____ (II) market.
- | | | |
|----|---------|-----------|
| | (I) | (II) |
| A. | money | primary |
| B. | money | secondary |
| C. | capital | primary |
| D. | capital | secondary |

6. Which of the following show the importance of management?
- (1) enhance the efficient use of resources of the business
 - (2) help staff achieve the goal of the business effectively
 - (3) prevent the business from being affected by external factors
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
7. What is/are the main purpose(s) of preparing a trial balance?
- (1) record the daily transactions of the business
 - (2) reflect the financial performance of the business
 - (3) check the arithmetical accuracy of bookkeeping entries
- A. (1) only
 - B. (3) only
 - C. (1) and (2) only
 - D. (2) and (3) only
8. Mr Cheung plans to buy a residential property. Which of the following types of credit arrangement is most appropriate for him?
- A. credit card
 - B. personal loan
 - C. mortgage loan
 - D. bank overdraft
9. In which of the following area(s) can mobile phone applications that deliver real-time stock data help enhance the quality of information?
- (1) accuracy
 - (2) timeliness
 - (3) understandability
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)
10. Which of the following is not a nominal account?
- A. salaries account
 - B. purchases account
 - C. returns inwards account
 - D. cash at bank account

11. Which of the following is/are the characteristic(s) of small and medium enterprises (SMEs) in Hong Kong?
- (1) They are responsive to market changes.
 - (2) They have a tall-type organisational structure.
 - (3) Their tax rate is different from that of large companies.
- A. (1) only
 - B. (2) only
 - C. (1) and (2) only
 - D. (2) and (3) only
12. Which of the following organisations is responsible for managing the Exchange Fund of Hong Kong?
- A. Mandatory Provident Fund Schemes Authority
 - B. Hong Kong Exchanges and Clearing Limited
 - C. Securities and Futures Commission
 - D. Hong Kong Monetary Authority
13. Which of the following tasks are performed by the finance department of a company?
- (1) make investment decisions for the company
 - (2) formulate debt collection policy of the company
 - (3) set up staff's compensation system of the company
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
14. A firm sells goods to a customer on credit. Which of the following are the effects of this transaction on the statement of financial position?
- | | <u>Total current assets</u> | <u>Total current liabilities</u> |
|----|-----------------------------|----------------------------------|
| A. | decrease | increase |
| B. | decrease | decrease |
| C. | increase | unchanged |
| D. | unchanged | unchanged |
15. Investors will use the accounting information provided in financial statements to evaluate _____.
- (1) whether it is worth investing in the business
 - (2) whether the organisational structure of the business is appropriate
 - (3) whether the business has adequate capital to carry out its projects
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

16. Which of the following are the characteristics of the Hong Kong economy?
- (1) simple taxation
 - (2) reliance on external trade
 - (3) concentration on secondary industry
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
17. On 1 January 2014, Mr Wong deposited \$500 000 into a saving plan which offers a return of 5% per year, compounded annually. The total amount of money Mr Wong will get from the plan after 3 years is _____ (to the nearest dollar).
- A. \$431 919
B. \$525 000
C. \$551 250
D. \$578 813
18. Which of the following descriptions of cash discounts offered to customers are correct?
- (1) They are expenses.
 - (2) They must be recorded in the books.
 - (3) They are used to encourage customers to purchase in cash.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
19. Which of the following are the advantages to a company of using email for internal communication?
- (1) Any feedback can be received instantly.
 - (2) Both textual and audio-visual messages can be sent.
 - (3) A message can be sent to many recipients at the same time.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
20. Under which of the following circumstances can a scheme member withdraw the accrued benefits from the Mandatory Provident Fund scheme?
- (1) early retirement at the age 60
 - (2) unemployed for more than 6 months
 - (3) permanent departure from Hong Kong
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

21. An operations manager of a company is responsible for _____.
- (1) assigning jobs to the factory workers
 - (2) projecting the demand for the products
 - (3) setting up the assembly lines for the plant
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (1), (2) and (3)
22. Which of the following statements regarding the World Trade Organisation (WTO) are correct?
- (1) WTO settles trade disputes among members.
 - (2) Decisions made by WTO are binding on all members.
 - (3) WTO helps developing countries develop the infrastructure needed to expand their trade.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
23. On 1 January 2014, Mary started her business by depositing her own cash \$300 000 into the firm's bank account and introducing her motor van costing \$80 000 into the firm. In addition, the firm borrowed \$40 000 from Mary's friends to buy goods for the business. Total revenues and total expenditures of the firm for the year ended 31 December 2014 amounted to \$120 000 and \$45 000 respectively.
- What is the amount of Mary's capital as at 31 December 2014?
- A. \$305 000
 - B. \$335 000
 - C. \$455 000
 - D. \$485 000
24. David joined a manufacturing company as an engineer some years ago and will be promoted to the post of the General Manager soon. After his promotion, _____ (I) _____ skills will become most important to his work while _____ (II) _____ skills will become least important.
- | | | |
|----|---------------|---------------|
| | (I) | (II) |
| A. | technical | interpersonal |
| B. | interpersonal | conceptual |
| C. | conceptual | interpersonal |
| D. | conceptual | technical |

25. Which of the following double entries are correct?

	<u>Transactions</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Purchased a file cabinet for office use in cash	Purchases	Cash
(2)	The owner introduced cash into the business	Cash	Capital
(3)	A debtor paid his debts by cheque	Cash at bank	Accounts receivables
A.	(1) and (2) only		
B.	(1) and (3) only		
C.	(2) and (3) only		
D.	(1), (2) and (3)		

26. Which of the following are the impacts of globalisation on business?
- (1) reduce information cost
 - (2) reduce competition among businesses
 - (3) facilitate transfer of technology between different countries
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
27. Which of the following is/are the characteristic(s) of a public corporation?
- (1) Its losses are borne by taxpayers.
 - (2) It is operated on a commercial basis.
 - (3) The government is involved in its daily operations.
- A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
28. Which of the following are the responsibilities of an individual investor?
- (1) understand the terms before signing a contract
 - (2) check account statements from time to time
 - (3) attend the Annual General Meetings of the company invested in
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

Based on the following information, answer Questions 29 and 30.

Nelson established his firm on 1 January 2014. Its sales and purchases for the year ended 31 December 2014 were \$540 000 and \$230 000 respectively. The gross profit ratio for 2014 was 60% while the net profit margin was 35%.

29. What is the amount of inventory of the firm as at 31 December 2014?
- A. \$10 000
 - B. \$12 000
 - C. \$14 000
 - D. \$18 000
30. What is the amount of expenses of the firm for 2014?
- A. \$135 000
 - B. \$189 000
 - C. \$216 000
 - D. \$324 000

END OF SECTION A

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.

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)

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

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2B
Business Management Module

10.30 am – 12.45 pm (2 hours 15 minutes)

This paper must be answered in English

INSTRUCTIONS

- (1) There are three sections in this paper.
- (2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.
- (3) Write your answers in the answer book. Start **each** question (not part of a question) on a **new page**.

Not to be taken away before the
end of the examination session

SECTION A (24 marks)

Answer **ALL** questions in this section.

1. Describe three limitations of using budgetary control to assess the performance of a sales department. (6 marks)
2. Explain two risk management strategies a convenience store could adopt to deal with shoplifting. (4 marks)
3. Explain three benefits to a company of providing orientation programmes to new employees. (6 marks)
4. Explain with one example each the meaning of “input” and “output” in Adams’ Equity Theory. (4 marks)
5. List four ordinances that might help protect consumer rights in Hong Kong. (4 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

6. Lucky Company Limited (Lucky) is a health food producer established in Hong Kong ten years ago. It sells to retailers such as supermarkets and specialty stores, and runs its own retail stores. In view of the keen competition and rising operating costs, Alan, the General Manager, called a meeting to discuss the following suggested measures to improve profitability:
- tighten up credit policy
 - freeze the salaries of all employees
 - introduce strict control over salespeople's work behaviours

Billy, the Finance Manager, agreed to the suggestions and said, "We have a high level of bad debts which makes it difficult to meet short-term obligations. We have been offering very generous terms to retailers. We now need to tighten up our credit policy."

Calvin, the Marketing Manager, added, "We should not rely on our retailers to boost sales. We'd better launch more promotions directly to the consumers to stimulate sales in our own retail stores."

Daisy, the Human Resources Manager, was concerned about the last two of the suggested measures, saying, "Our absenteeism and turnover rates are increasing and many staff are not willing to work hard. Freezing their salaries may worsen the situation. I also wonder if strict control over the salespeople will be effective. Shall we consider giving them some non-monetary rewards?"

- (a) With reference to any two elements of credit policy, explain how Lucky can tighten its credit to retailers. (4 marks)
- (b) For any three elements of the promotion mix, suggest one way each for Lucky to stimulate the sales in its own retail stores. (6 marks)
- (c) With reference to two relevant assumptions of McGregor's Theory X and Theory Y, explain why strict control over the salespeople could make them work hard. (4 marks)
- (d) Suggest four non-monetary rewards that Lucky could give to its salespeople. (4 marks)

(Total: 18 marks)

7. Sunlight Fitness is a fitness chain set up by Peter with the mission of providing customers with excellent fitness experiences. Its centres are equipped with a range of advanced equipment suitable for customers of all fitness levels. Benefiting from the healthy living trend in Hong Kong, the company has enjoyed good sales and profits in the early years of its operation.

The fitness service industry has become more competitive in recent years and the growth in sales and profits of Sunlight Fitness has slowed down. Its financial data of 2013 and 2014 is extracted below:

	<u>2013</u>	<u>2014</u>
	\$'000	\$'000
Sales	30 000	35 000
Net profit before tax	9 000	9 450
Total assets (as at 31 December)	12 500	17 500

In a management meeting, Peter said, "Although our sales and net profits are increasing, the net profit margin has decreased. Shall we calculate the total assets turnover as well to find out more?"

Paul, the Centre Manager, said, "At the same time, we are receiving more and more customer complaints. They complained about the long queues to use the fitness equipment during peak hours. In addition, they are unhappy with the cleanliness of the centre, especially when they find other users' sweat stains on the equipment. Customers also said that trainers are difficult to book, even though the trainers are often found chatting with customers."

Mary, the Marketing Manager, remarked, "To increase our competitiveness and outperform our competitors, we must enhance our service quality. I have also noticed that beauty services are increasingly patronised by male customers in Hong Kong. I believe the market of beauty services for men has good potential as it's now in the growth stage of the product life cycle."

Paul responded, "I agree with you! We can set up a beauty centre to provide skin and beauty care services to male customers. We will introduce the safest and most advanced equipment and recruit experienced beauty consultants through interview."

Peter queried, "Is interview really an effective means of choosing the right applicants?"

- (a) (i) Calculate the total assets turnover of Sunlight Fitness for 2013 and 2014. (2 marks)
- (ii) Give one reason for the change in total assets turnover in (i) above. (2 marks)
- (b) With reference to any three characteristics of service, explain how Sunlight Fitness can enhance the service quality of its fitness centres. (6 marks)
- (c) Explain two limitations of using interview as a means of choosing beauty consultants for the beauty centre. (4 marks)
- (d) Suggest a product strategy and a pricing strategy for the beauty centre. For each strategy, justify your suggestions with one characteristic of the growth stage of the product life cycle. (4 marks)

(Total: 18 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

8. In view of its promising prospects, a listed fashion retail chain is planning to expand its business and is considering using debt or equity financing.

- (a) Describe the manpower planning process which should be used for the expansion of the retail chain.
(8 marks)
- (b) Explain the criteria that the retail chain could use to evaluate whether to use debt or equity financing.
(12 marks)

(Total: 20 marks)

9. The banquet service is one of the main sources of income for hotels in Hong Kong. Customers usually hold banquets in hotels for weddings or birthdays.

- (a) Illustrate with examples the bases of market segmentation that can be used by a hotel in Hong Kong for its banquet service.
(10 marks)
- (b) Explain the factors to be considered by a hotel when determining the target market for the banquet service.
(10 marks)

(Total: 20 marks)

END OF PAPER

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Marking Schemes

This document was prepared for markers' reference. It should not be regarded as a set of model answers. Candidates and teachers who were not involved in the marking process are advised to interpret its content with care.

PAPER 1 Compulsory Part

SECTION A

Question No.	Key	Question No.	Key
1.	D (37%)	16.	A (92%)
2.	B (80%)	17.	D (95%)
3.	C (78%)	18.	A (54%)
4.	B (28%)	19.	D (39%)
5.	C (46%)	20.	B (67%)
6.	A (63%)	21.	C (39%)
7.	B (63%)	22.	D (25%)
8.	C (70%)	23.	C (63%)
9.	B (49%)	24.	D (77%)
10.	D (64%)	25.	C (68%)
11.	A (84%)	26.	B (89%)
12.	D (61%)	27.	B (39%)
13.	A (59%)	28.	A (59%)
14.	C (54%)	29.	C (81%)
15.	B (85%)	30.	A (71%)

Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.

SECTION B

General Principles of Marking

1. The answers given in this marking scheme and those brought up in light of live scripts and discussions at the Markers' Meeting are 'suggestions' only. There are answers that are not mentioned but nevertheless are equally valid.
2. Where the number of points required is specified in a question, the first listed points will be marked up to the number required, and other points crossed out as 'excess'.
3. The guidelines for points of 2 marks each are as follows:
 - 0 mark : irrelevant or ambiguous answers
 - 1 mark : relevant phrases containing key words that answer the question
 - 2 marks : a relevant answer with a brief explanation of the concept/key words stated

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PART 1

QUESTION 1

Marks

- (a) Characteristics:
- measurable: the goal does not specify a quantified amount of increase
 - time-bound: the goal does not specify the targeted timeframe
 - specific: the number of Internet bookings may refer to the log-in times of customers, successful bookings or the bookings that lead to actual rental
 - realistic/attainable: the goal may not be achievable, e.g. due to the shrinking tourism business around the world

Max. 4

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

- (b) Political factor:
- political stability of Hong Kong / travellers' home countries
 - the relationship between Hong Kong/China and the travellers' home countries

Max. 2

(2 marks for each relevant political factor, max. 2 marks)

- Legal factor:
- regulations related to guest house/hotel licensing
 - regulations related to visa requirement

Max. 2

(2 marks for each relevant legal factor, max. 2 marks)

8 marks

QUESTION 2

Marks

- (a) The consistency principle:
The accounting treatment of similar items should be the same in an accounting period and from one period to another

2

- (b)
- \$175 000
 - Historical cost concept
 - The motor van should be recorded at the actual cost to the business, that is, the net price after deducting discount.

1

1

1

5 marks

QUESTION 3

Marks

- (a) Benefits:
- capital gain through the price appreciation of the shares
 - investment income through share dividend
 - voting rights that can affect company management

Max. 4

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

- (b)(i) Conditions fulfilled:
- Calvin is a retail investor
 - Calvin suffers pecuniary losses as a result of the default of a licensed stockbroker
 - The shares are exchange-traded products in Hong Kong

Max. 2

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

- (ii) \$150 000

1

7 marks

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QUESTION 4

Marks

(a)	Peter			
	Statement of financial position as at 31 December 2014			½
		\$	\$	
	Non-current assets			
	Motor vehicles		986 000	½
	Current assets			
	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
	TOTAL ASSETS		<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>	
	Current liabilities			
	Trade payables	383 000		½
	Bank loan (repayable in September 2015)	430 000	813 000	½
	TOTAL CAPITAL AND LIABILITIES		<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

2015

Marks

(a)	John			
	Income statement for the year ended 31 December 2014			½
		\$	\$	
	Sales		492 000	½
	Less : <u>Cost of goods sold</u>			
	Purchases	227 500		½
	Add: Carriage inwards	25 500		½
		<u>253 000</u>		
	Less : Returns outwards	9 230		½
		<u>243 770</u>		
	Less: Closing inventory	88 000	<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	120 000	<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

2015

PAPER 2B
Business Management Module

General Principles of Marking

1. The answers given in this marking scheme and those brought up in light of live scripts and discussions at the Markers' Meeting are 'suggestions' only. There are answers that are not mentioned but nevertheless are equally valid.
2. Where the number of points required is specified in a question, the first listed points will be marked up to the number required, and other points crossed out as 'excess'. Otherwise, a candidate may get the full mark of a part/question by scoring from a number of relevant points.
3. The general guidelines for points which are awarded 0 to 3 marks each are as follows:

- 0 mark : irrelevant or ambiguous answers
- 1 mark : relevant phrases containing key words that answer the question
- 2 / 3 marks : a relevant point of answer with a brief explanation of the concept/key words and/or illustration of how it is related to the given scenario

SECTION A

QUESTION 1

Marks

Limitations:

6

- business environment changes rapidly and the budgets may not be able to catch up accordingly
- budgeted sales results may be achieved through window-dressing
- the budgeting staff may have made unrealistic estimates
- non-quantitative achievements (e.g. good relationship with customers) are not revealed in the budgets

(2 marks for each relevant limitation, max. 6 marks)

6 marks

QUESTION 2

Marks

Risk management strategies:

4

- Risk reduction: e.g. install anti-theft equipment
- Risk transfer: e.g. buy theft insurance
- Risk assumption: e.g. bear the losses on stolen items

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

4 marks

QUESTION 3

Marks

Benefits:

6

- reduce turnover rate
- instill corporate culture and values
- foster collaboration and mentoring
- enhance employees' productivity and quality of work

(2 marks for each relevant benefit, max. 6 marks)

6 marks

QUESTION 4

2015

Meaning and examples:

Input: perceived contribution made by employees' themselves

Example: skills, education, training, effort, experience, time

Marks

1

1

Output: perceived reward received by employees

Example: level of compensation, promotion opportunities, bonus, status, fringe benefits, recognition, praise

1

1

(2 marks for relevant meaning and example for each term, max 4 marks)

4 marks

QUESTION 5

Ordinances:

- Trade Descriptions Ordinance

- Sale of Goods Ordinance

- Food Safety Ordinance

- Toys and Children's Products Safety Ordinance

- Weights and Measures Ordinance

(1 mark for each relevant ordinance, max. 4 marks)

Marks

4

4 marks

SECTION B

QUESTION 6

Marks

(a) Elements of credit policy:

- credit terms: lower credit limit, shorten credit period

- credit standard: set a higher standard to screen out retailers with poor creditworthiness

- collection policy: take measures to expedite debt collection procedures, e.g. sending reminders

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

4

(b) Elements of promotion mix:

- advertising: e.g. place advertisements on various media such as TV, magazine and the Internet

- sales promotion: e.g. give incentives such as purchase discounts, gifts, coupons and samples

- public relations: e.g. launch events such as press conference and road shows

- personal selling: e.g. train in-store salespeople to persuade customers to buy

(2 marks for each relevant element of promotion mix, max. 6 marks)

6

(c) Theory X assumptions:

- people inherently dislike work and need to be closely monitored

- people try to avoid responsibilities and require rules and guidelines to make them work hard

- people have little ambition and need to be led

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

4

2015

- (d) Non-monetary rewards: 4
- recognition programmes: e.g. best salesperson award
 - more training and development opportunities
 - more job autonomy
 - better welfare
 - verbal appreciation
- (1 mark for each relevant non-monetary reward, max. 4 marks)

18 marks

QUESTION 7

Marks

- (a) (i) 2013: $\$30\,000\,000 / \$12\,500\,000 = 2.4$ times 1
2014: $\$35\,000\,000 / \$17\,500\,000 = 2.0$ times 1
- (ii) Reason: 2
- less efficient use of assets: increased spending on more sophisticated equipment to increase competitiveness, but no proportionate increase in sales
- (2 marks for each relevant reason, max. 2 marks)
- (b) Ways: 6
- intangibility: e.g. provide a cleaner environment to enhance visibility of service standard
 - heterogeneity: e.g. provide training to enhance the level of standardisation
 - perishability: e.g. promote non-peak hour bookings to reduce customers' waiting time
 - inseparability: e.g. hire experienced trainers with good communication skills to enhance interaction with customers
- (2 marks for each relevant way related to one characteristic, max. 6 marks)
- (c) Limitations: 4
- the technical skills of the applicants are more important for the job but these cannot be easily reflected in an interview
 - result of the interview is subject to personal bias of the interviewers
 - difficult to set and apply standardised selection criteria
- (2 marks for each relevant limitation, max. 4 marks)
- (d) - Characteristic: growing number of competitors 1
- Product strategy: e.g. provide a greater variety of beauty and skin care services to differentiate from competitors 1
- Characteristic: growing number of customers / growing number of competitors 1
- Pricing strategy: e.g. set lower prices to penetrate market 1
- (2 marks for each example and relevant characteristic, max 4 marks)

18 marks

SECTION C

2015

QUESTION 8

Marks

- (a) Manpower planning process: 8
1. forecast manpower demand based on the plan and scale of expansion: quantity and quality of manpower
 2. estimate manpower supply: assess the current turnover rate, retirement policy and attrition rate
 3. compare manpower demand and supply: identify shortfall and skill deficiencies
 4. develop action plans and follow up: plan for recruitment and selection, plan for training and development activities
- (2 marks for each relevant step in correct sequence, max. 8 marks)

(b) 12

Evaluation criteria	Debt financing	Equity financing
Repayment and liquidity/ Risk	<ul style="list-style-type: none"> ● Higher risk ● Regular interest payments ● Pre-set repayment schedule ● Repayment of principal upon maturity 	<ul style="list-style-type: none"> ● Lower risk ● No repayment schedule and regular interest payment
Flexibility and control of fund usage	<ul style="list-style-type: none"> ● Lower flexibility and control ● Restraints of fund usage imposed by creditors 	<ul style="list-style-type: none"> ● Greater flexibility and control ● e.g. ploughing back retained earnings is a direct and simple way under the full control of the company
Dilution of control	<ul style="list-style-type: none"> ● No 	<ul style="list-style-type: none"> ● Yes
Collateral	<ul style="list-style-type: none"> ● Often required 	<ul style="list-style-type: none"> ● Not required
Cost	<ul style="list-style-type: none"> ● Interest expenses are tax deductible ● No issuing cost/ low administrative cost 	<ul style="list-style-type: none"> ● Dividend is not tax-deductible ● High issuing cost/ administrative cost
Profit sharing	<ul style="list-style-type: none"> ● No profit sharing ● Pre-agreed interest and principal → no direct claim on future profit 	<ul style="list-style-type: none"> ● If the company is successful in the future, profit will be shared with new investors

(3 marks for each relevant criterion, max. 12 marks)

20 marks

QUESTION 9

20/5

Marks

10

- (a) Bases of market segmentation:
- demographic segmentation: e.g. people with different income levels may have different expectations on decoration and quality of food for the banquets
 - psychographic segmentation: e.g. people with different lifestyles (such as vegetarians and people who care about environmental protection) may order different dishes for their banquets
 - behavioural segmentation: e.g. different people may hold banquets for different occasions such as weddings, birthdays and graduation dinners
 - geographic segmentation: e.g. customers from different countries may have different preferences for banquet settings and proceedings
- (3 marks for each relevant base, max. 10 marks)

- (b) Factors to be considered when selecting target market:
- Segment size and affordability: e.g. an attractive segment should be substantial enough for the hotel to consider entering (e.g. visitors from the mainland)
 - Segment growth rate: e.g. segments with strong growth rates are more attractive for the hotel
 - Structural attractiveness: e.g. a segment which has less intense competition is preferred
 - Company objectives: e.g. a segment is not attractive to a hotel if it does not match its long-run objectives
 - Company capability: e.g. the hotel should possess the skills and resources to provide satisfactory service to the segment
- (3 marks for each relevant factor, max. 10 marks)

10

20 marks

END OF PAPER 2B

Candidates' Performance

There were 14 207 candidates for Business, Accounting and Financial Studies examination this year: 10 058 candidates chose the Accounting Module and 4149 chose the Business Management Module. Approximately 53% of the candidates sat the English papers.

Paper 1

Section A

There were 30 multiple-choice questions in this section. While the percentage of correct answers to some questions was below 50%, candidates' overall performance was still considered to be good. The mean score was 37 out of a total of 60 marks for this section. The results showed that many candidates were weak in applying their knowledge to business environments and real life situations. The percentage correct was lowest in the following questions:

Q1 A limited partner _____.

- | | |
|---|-------|
| A. is a nominal partner | (14%) |
| B. is not liable for the debts of a partnership | (46%) |
| C. does not need to invest money into a partnership | (3%) |
| *D. does not take part in the management of a partnership | (37%) |

Many candidates did not understand thoroughly the meaning of limited liability and the role of a limited partner.

Q4 In October 2014, a firm had the following purchases and returns:

- | | |
|-------|--|
| Oct 2 | Purchased goods on credit from Mr Yu for \$2500 |
| 9 | Purchased goods in cash for \$2000 |
| 17 | Returned goods to Mr Yu for \$300 |
| 26 | Purchased goods on credit from Miss Lui for \$3200 with a cash discount of 10% if payment is made within 30 days |

Based on the above information, what should be the total amount of purchases recorded for the month of October 2014 in the Purchases Journal?

- | | |
|------------|-------|
| A. \$5380 | (11%) |
| *B. \$5700 | (28%) |
| C. \$7400 | (47%) |
| D. \$7700 | (14%) |

Many candidates wrongly including cash purchases and returns outwards in the records of the Purchases Journal.

Q19 Which of the following are the advantages to a company of using email for internal communication?

- | | |
|--|-------|
| (1) Any feedback can be received instantly. | |
| (2) Both textual and audio-visual messages can be sent. | |
| (3) A message can be sent to many recipients at the same time. | |
| A. (1) and (2) only | (1%) |
| B. (1) and (3) only | (12%) |
| C. (2) and (3) only | (48%) |
| *D. (1), (2) and (3) | (39%) |

Many candidates overlooked the advantages of email that it is instant and allows for two-way communication.

Q21 An operations manager of a company is responsible for _____ .

- (1) assigning jobs to the factory workers
- (2) projecting the demand for the products
- (3) setting up the assembly lines for the plant

- A. (1) only (15%)
- B. (2) only (16%)
- *C. (1) and (3) only (39%)
- D. (1), (2) and (3) (30%)

Many candidates mixed up the roles of a marketing manager with those of an operations manager.

Q22 Which of the following statements regarding the World Trade Organisation (WTO) are correct?

- (1) WTO settles trade disputes among members.
- (2) Decisions made by WTO are binding on all members.
- (3) WTO helps developing countries develop the infrastructure needed to expand their trade.

- A. (1) and (2) only (45%)
- B. (1) and (3) only (24%)
- C. (2) and (3) only (6%)
- *D. (1), (2) and (3) (25%)

Many candidates overlooked the role of the WTO in helping developing countries build their infrastructure.

Section B

Part 1

Question Number	Performance in General
1 (a)	Good. Most candidates were able to explain the characteristics of a SMART goal with reference to Annie's business.
(b)	Fair. Though many candidates were able to suggest political and legal factors, most of them failed to relate their explanations to the case scenario. Some used irrelevant assumptions and examples.
2 (a)	Good. Most candidates were able to explain the consistency principle.
(b)	Satisfactory. Many candidates were able to state the correct valuation for the motor van and mention the historical cost concept. However, many of them failed to explain how to reach this amount.
3 (a)	Good. Most candidates were able to explain the benefits to an investor of investing in shares. However, some candidates mixed up the meanings of "dividend" and "interest".
(b)	Poor. Candidates were not aware of the conditions for receiving compensation from the Investor Compensation Fund and the maximum amount of compensation.

Part 2

Question Number	Popularity	Performance in General
4 (a)	17%	Good. Most candidates prepared the statement of financial position and worked out the amount of capital. However, some candidates failed to classify "Fixed deposit (6-month)" as a current asset and "Bank loan (repayable in September 2015)" as a current liability. Some failed to present the heading of the statement properly.
(b)		Very Good. Most candidates stated the form of departmentalisation planned by Peter.
(c)		Good. Most candidates were able to describe the other forms of departmentalisation. However, some candidates mentioned the sub-divisions of a production department instead of the departments of the firm.
5 (a)	83%	Good. Most candidates presented the income statement and got the correct profit figures. Some of them mixed up some cost items with expense items, such as "Carriage inwards" and "Carriage outwards". Some failed to present the heading of the income statement properly.
(b)		Fair. Among the wrong answers, "partnership" was mentioned most. Candidates overlooked the fact that all the new owners would have limited liability for the firm.
(c)		Fair. Some candidates compared the characteristics of the two forms of business ownership instead of suggesting the disadvantages for a private limited company as compared to a sole proprietorship. Restriction in ownership transfer, which had been given in the question, was also mentioned as an answer by some candidates.

General comments and suggestions

Candidates' performance was in general satisfactory. While good answers were seen in questions requiring recall of knowledge, candidates were weak in comprehension and the application of knowledge, in particular applying knowledge and concepts to case scenarios. Many candidates wasted their effort in writing as much as possible without paying attention to the organisation and elaboration of their answers. Candidates are reminded to study the questions carefully and thoroughly and respond to what is asked.

Paper 2A (Accounting Module)**Section A**

Question Number	Performance in General
1 (a)	Good. Most candidates updated the cash at bank account correctly. Many candidates did not identify the item "refer to drawer" as a dishonoured cheque, while others failed to provide the appropriate descriptions for the postings in the cash at bank account.
(b)	Good. However, although most candidates managed to show the amounts of the relevant items in the bank reconciliation statement, some did not describe these items as unpresented cheques or uncredited deposits. Some candidates did not follow the requirements of the question to commence with the updated cash at bank balance.
2 (a)	Very good. Most candidates prepared the purchases ledger control account correctly. However, some reversed the debit and credit entries of some items and a few debited and credited the account with the same items and thus got no marks.
(b)	Very good. Most candidates were able to state an advantage of maintaining control accounts.

Question Number	Performance in General
3	Fair. Few candidates failed to include carriage inwards as a component of the cost of direct materials consumed in part (a). In part (b), many candidates had only a limited understanding of prime cost and hence wrongly included production overheads and work in progress inventories in the calculation of this cost. Quite a number did not distinguish cost of goods manufactured in part (c) from cost of goods sold in part (d) and they incorrectly included finished goods inventories in the computation of cost of goods manufactured.
4 (a)	Good. Only a small number of candidates did not identify all the variable costs and hence failed to compute the correct contribution margin. While some computed the total contribution margin instead of the contribution margin per pair of shoes, others just worked out the contribution margin ratio as the answer.
(b)	Fair. Quite a number of candidates did not include both the fixed costs and targeted profit in the calculation of the amount of sales revenue. Some candidates managed to work out the correct quantity of shoes but failed to convert this quantity into sales dollars when presenting the answer.
(c)	Fair. Most candidates worked out the total sales amounts for the two scenarios mentioned in the question. However, some did not consider the drop in sales quantity when computing the total variable costs and so gave incorrect profits and made wrong decisions.

Section B

Question Number	Performance in General
5 (a)	Good. Many candidates lost marks for not giving proper descriptions of the postings in the realisation account. Some did not adopt the account names as given in the question, for example, accounts receivables was adopted instead of trade receivables (given). Many candidates did not know how to record the transaction relating to the taking over of the inventory by Tim to settle 60% of his loan to the company.
(b)	Poor. Many candidates did not work out the correct amounts of deficiency to be borne by the two partners, Ron and Tim, and most of them did not show the ratio for the share of deficiency. Not many candidates computed the correct amounts of final settlement for Ron and Tim.
6 (a)	Satisfactory. Candidates were generally weak in writing the proper account names for the journal entries, for example, electricity bill was used instead of electricity. While some candidates tended to record any differences between the debit and the credit entries in the suspense account, others just ignored the debit entry that should be made in the suspense account when correcting the discounts received which had been wrongly credited to purchases in item (v).
(b)	Fair. Not many candidates stated correctly the three types of accounting errors made in items (i), (ii) and (iii).
(c)	Good. Most candidates identified the accounting principle or concept that had been violated in item (vi), though some of the explanations were not appropriate. Quite a number of candidates stated the correct definition but failed to apply the accounting principle or concept to the scenario mentioned in the question.
7 (a) (i)	Good. Most candidates worked out the total number of direct labour hours, which is the basis for production overheads allocation.
(ii)	Good. Most candidates were able to compute the total production cost per box of cupcakes. Some provided the total production cost for all the cupcakes rather than just for one box.

Question Number	Performance in General
7 (b)	Fair. Only a few candidates were able to compare the cost of purchasing from the local supplier and the cost of production in an accurate manner. A majority of candidates included an irrelevant cost, depreciation, in the calculation of the total fixed production costs.
(c) (i)	Satisfactory. Some candidates wrongly gave the contributions of each of the three products as the answer instead of the contribution per direct labour hour for each of the three products as required in the question.
(ii)	Satisfactory. Many candidates correctly calculate the annual production quantity for each of the three products, but some did not answer this part of the question.

Section C

Question Number	Popularity	Performance in General.
8 (a)	65%	Good. Most candidates identified the major cost components of the new office equipment. However, some candidates prepared a formula or a ledger account instead of a statement.
(b)		Fair. Most candidates presented the financial statements in the proper format, though some of the figures in the statements were not correct. Some candidates treated the reduction in value of the damaged inventory as an expense in the income statement instead of part of the cost of goods sold. Some candidates overlooked the company's accounting policy and failed to classify depreciation expenses and loss on the disposal of office equipment as administrative expenses. Few worked out the correct amount for administrative expenses. While most candidates did not give the correct amount of accumulated depreciation, others wrongly classified bank overdrafts as a current asset in the statement of financial position.
(c)		Fair. Most candidates stated the correct accounting principle or concept for item (vi). However, some candidates lost marks for incorrect spelling. Quite a number failed to relate the accounting principle or concept to the scenario mentioned in the question.
9 (a)	35%	Good. Most candidates identified the relevant accounting principle or concept that had been violated in item (ii). However, many did not state that the unpaid electricity should be recorded as an expense in the financial statements for 2014.
(b)		Poor. Many candidates did not give the correct amount of closing inventory. As for current assets at 31 December 2014, some did not give the amount of current assets at 1 January 2014, while others failed to include the changes in current assets in the calculation.
(c)		Poor. Some candidates were not familiar with the formulae for the various financial ratios in this question, while others did not include the relevant figures for the computation. The accrued electricity was often ignored by candidates when computing the net profit ratio and the quick ratio. Candidates are reminded that average figures should be adopted in the denominators for the trade payables turnover and inventory turnover.

Question Number	Popularity	Performance in General
9 (d)		Good. Most candidates were able to state the correct choice. However, many of them were not able to explain why Lily Ltd is a better investment based on the three ratios given in the question.

General comments and suggestions

Candidates are reminded to read the questions carefully and present their answers in a tidy manner with good layout and legible writing. Abbreviations must not be used in accounting entries, especially financial statements. Unless otherwise specified, narrations should be included in journal entries. Candidates should show workings in their answers, so that they can gain some step marks even if the final answers are wrong.

Paper 2B (Business Management Module)

Section A

Question Number	Performance in General
1	Satisfactory. Most candidates were able to explain the limitations of using budgetary control to assess the performance of a sales department correctly.
2	Very good. Many candidates were able to identify different risk management strategies correctly. However, a few candidates failed to tailor their answers specifically to a convenience store dealing with shoplifting.
3	Good. Most candidates were able to suggest benefits to a company of providing orientation programmes to new employees. However, some of them only gave the benefits to employees ignoring the benefits to the company.
4	Fair. Quite a lot of candidates were able to give examples of "input" and "output" in Adams' Equity Theory, but failed to explain their meaning accurately.
5	Fair. Most candidates were able to list some common ordinances. However, many candidates did not name the ordinances correctly and some others emphasized consumers' rights.

Section B

Question Number	Performance in General
6 (a)	Good. Most candidates suggested how to tighten credit to retailers based on two elements of credit policy.
(b)	Satisfactory. Many candidates were able to state ways to stimulate sales in Lucky's own retail stores based on three elements of the promotion mix. A minority did not explain the methods clearly and some others mixed up the concepts of marketing mix and promotion mix.
(c)	Satisfactory. Many candidates correctly described two relevant assumptions of Theory X and Theory Y but quite a number did not explain clearly, with reference to those assumptions, why strict control over the salespeople would make them work hard.
(d)	Fair. Most candidates were only able to suggest different non-monetary rewards to Lucky's salespeople. Some of them mixed up the concepts of monetary rewards and non-monetary rewards.

Question Number	Performance in General	
7	(a)	Satisfactory. Part (i) was generally well-answered whereas candidates' performance in part (ii) was only fair. The candidates' reasons for the change in total asset turnover were mostly based on mathematical calculations rather than the business context specified in the case scenario.
	(b)	Satisfactory. Most candidates were able to state the characteristics of services. However, some mixed up the meaning of some characteristics and thus the applications were wrongly illustrated.
	(c)	Satisfactory. Quite a number of candidates were able to focus on the job characteristics of beauty consultants and explain the limitations of interview.
	(d)	Fair. Many candidates provided correct product and pricing strategies but failed to justify their suggestions by referring to the characteristics of the growth stage. Some misunderstood the requirements of the question and gave suggestions referring to another stage of the product life cycle.

Section C

Question Number	Popularity	Performance in General
8	(a)	40%
	(a)	Satisfactory. Most candidates were able to identify and explain the steps of the manpower planning process. However, some candidates were confused about the steps and gave repetitious and unclear elaborations. Some candidates included various corresponding actions before identifying the shortfall of manpower. In addition, some candidates failed to link the explanation to the context of a retail chain.
	(b)	Fair. Most candidates failed to demonstrate a good understanding of the criteria for assessing whether equity and debt financing should be used for the retail chain. While some candidates were able to give the criteria, they were not able to explain the concepts clearly and mixed up equity financing and debt financing. A few candidates used the wrong approach, for example, applying the "5Cs" in answering the question.
9	(a)	60%
	(a)	Satisfactory. Many candidates were able to state the bases of market segmentation that can be used by a hotel in Hong Kong for its banquet service. However, most of them did not illustrate their answer with appropriate examples.
	(b)	Poor. Most candidates failed to demonstrate their understanding of the factors to be considered when determining the target market for the banquet service. Also, some candidates merely described the factors without specifically linking their elaboration to the target market for the service. Others wrongly answered market coverage strategies such as differentiated marketing and undifferentiated marketing.

General comments and suggestions

Candidates are strongly advised to read questions carefully before attempting them so that the requirements are fully understood. More training is needed to strengthen the reading skill and enhance candidates' understanding of the intended meaning of questions.

It was also found that candidates were weak in applying concepts to specified contexts or situations. They tended to reproduce what they had memorised from textbooks instead of tailoring their answers to the specified context or conditions. Candidates should be encouraged to understand how the same concept may apply to different contexts so that their sensitivity to these concepts can be improved.

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A
Accounting Module

10.30 am – 12.45 pm (2 hours 15 minutes)

This paper must be answered in English

INSTRUCTIONS

- (1) There are three sections in this paper.
- (2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.
- (3) Write your answers in the answer book. Start **EACH** question (not part of a question) on a **NEW** page.

Not to be taken away before the
end of the examination session

SECTION A (24 marks)

Answer **ALL** questions in this section.

1. The following information was extracted from the cash book of Jaden Company for the month ended 31 December 2014:

Cash at bank						
2014			2014			
		\$		Cheque No.	\$	
Dec 1	Balance b/d	21 000	Dec 8	Kenneth Ltd	707891	5 200
5	Candy Ltd	24 000	10	Electricity	707892	1 900
12	Man Ltd	19 300	15	Tony	707893	12 200
20	Cherry	9 310	21	Yip's Ltd	120485	4 000
31	Nam Ltd	8 620	31	Balance c/d		58 930
		<u>82 230</u>				<u>82 230</u>

Jaden Company received the following bank statement for the month of December 2014:

Date	Description	Withdrawal	Deposit	Balance
2014		\$	\$	\$
Dec 1	Balance b/d			21 000
5	Cheque deposit		24 000	45 000
12	Cheque deposit		19 300	64 300
14	Direct debit - water	3 100		61 200
16	Refer to drawer	19 300		41 900
17	Cheque 707892	1 900		40 000
18	Sunny Ltd		12 300	52 300
20	Cheque deposit		9 310	61 610
21	Cheque deposit		4 000	65 610
22	Cheque 707891	5 200		60 410
31	Bank charges	30		60 380

Additional information:

- On 18 December 2014, a customer, Sunny Ltd, made a credit transfer to the company's bank account without notifying the company.
- On 21 December 2014, Cheque 120485 was received from a customer, Yip's Ltd, but it was recorded as a payment in the cash at bank account.

REQUIRED:

- Update the cash at bank account of Jaden Company. (5 marks)
- Prepare a bank reconciliation statement as at 31 December 2014, commencing with the updated cash at bank balance. (3 marks)

(Total: 8 marks)

2. The following information was extracted from the books of Tommy Limited for the month of March 2015:

	\$
Allowances from suppliers for damaged goods	990
Bad debts written off	1 410
Contra between sales ledger and purchases ledger	4 500
Purchases ledger control account balance, 1 March 2015	8 900
Cash purchases	13 200
Cash sales	22 100
Credit purchases	35 400
Credit sales	89 000
Discounts allowed	1 230
Discounts received	670
Interest charged on overdue customers	190
Payments to suppliers by cheques	19 800
Returns inwards	890
Returns outwards	560

REQUIRED:

- (a) Write up the purchases ledger control account for the month ended 31 March 2015. (4 marks)
- (b) State one advantage of maintaining control accounts. (1 mark)
- (Total: 5 marks)

3. Ivan Company had the following cost information for 2014:

	\$
Beginning inventories:	
Direct materials	30 000
Work in progress	18 000
Finished goods	48 000
Carriage inwards on direct materials	20 000
Direct materials purchases	140 000
Direct labour	380 000
Ending inventories:	
Direct materials	55 000
Work in progress	33 000
Finished goods	38 000
Production overheads	330 000

REQUIRED:

Calculate the following items for 2014:

- (a) Cost of direct materials consumed (1 mark)
- (b) Prime cost (1 mark)
- (c) Cost of goods manufactured (1 mark)
- (d) Cost of goods sold (1 mark)
- (Total: 4 marks)

4. Peter Company plans to sell 3000 pairs of shoes at \$350 per pair. Relevant financial information is given below:

	\$
Fixed production overheads	150 000
Fixed selling and administrative expenses	228 000
Direct materials per pair of shoes	45
Direct labour per pair of shoes	55
Variable production overheads per pair of shoes	18
Sales commission per pair of shoes	22

REQUIRED:

- (a) Calculate the contribution margin for each pair of shoes. (2 marks)
- (b) How much sales revenue does Peter Company have to earn in order to achieve a target profit of \$168 000? (2 marks)
- (c) If the price is set at \$365 per pair, it is estimated that the sales quantity will drop from 3000 pairs to 2700 pairs. Should Peter Company raise the price? Support your answer with calculations. (3 marks)
- (Total: 7 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

5. Ron, Sam and Tim were in partnership sharing profits and losses in the ratio of 1:2:3 respectively. An extract of the account balances as at 31 December 2014 is given below:

	\$
Capital accounts:	
- Ron	112 300
- Sam	30 000
- Tim	190 700
Office equipment, net	465 000
Inventory	83 000
Trade receivables	62 000
Cash at bank	4 000
Loan from Tim	80 000
Trade payables	201 000

On 1 January 2015, Sam was declared bankrupt and the partnership was dissolved. The relevant information is as follows:

- (i) Ron took over the office equipment at 50% of its net book value.
- (ii) Tim took over all the inventory to settle 60% of his loan to the partnership. The partnership paid the outstanding loan balance by cheque.
- (iii) Ron was responsible for collecting all the trade receivables for the partnership. Finally he collected \$60 000 and deposited the amount into the partnership's cash at bank account. The partnership agreed to pay him a handling fee of 2% on the amount collected.
- (iv) The partnership received a 2.4% discount on the trade payables, which were settled by Tim on behalf of the partnership.
- (v) Realisation expenses of \$3800 were paid by cheque.
- (vi) Sam was unable to settle his account and it was agreed that his deficiency was to be borne by the remaining partners according to their profit and loss sharing ratio.

REQUIRED:

Prepare the following accounts:

- (a) realisation account (5 marks)
- (b) the partners' capital accounts in columnar form (5 marks)

(Total: 10 marks)

6. 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:
- (i) Credit sales for \$500 had been overlooked by the bookkeeper and no record was made in the books.
 - (ii) Payment of \$3000 for rates was debited to the rental deposit account.
 - (iii) An electricity bill for December 2014 amounting to \$2500 was recorded as \$250 in the books. The bill would be settled in January 2015.
 - (iv) A cheque for \$1200 received from a customer, Windy Ltd, had been entered in the cash book only.
 - (v) Discounts received of \$540 had been credited to the purchases account as \$450.
 - (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:

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (7 marks)
 - (b) Identify the type of accounting error made in each of items (i), (ii) and (iii) above. (3 marks)
 - (c) Identify and explain the accounting principle or concept that has been violated in (vi) above. (3 marks)
- (Total: 13 marks)

7. Susan Café operates its own bakery and produces cookies and cupcakes. Information on the two products is as follows:

	<u>Cookies</u>	<u>Cupcakes</u>
Selling price per box	\$290	\$390
Direct material cost per box	\$20	\$120
Direct labour hour per box	$\frac{1}{3}$ hour	$\frac{1}{2}$ hour
Labour wage rate per hour	\$90	\$90
Variable production overheads per box	\$15	\$15

The bakery produces and sells 2400 boxes of cookies and 1800 boxes of cupcakes per year. Production overheads are allocated on the basis of direct labour hours. Details of annual fixed production overheads for the bakery are as follows:

	\$
Supervisor's salary	286 000
Depreciation on equipment	80 000
Rent	144 000

REQUIRED:

- (a) Calculate the following for the bakery:
- (i) the predetermined fixed production overhead absorption rate (2 marks)
 - (ii) the total production cost per box of cupcakes (2 marks)

A local supplier offered to supply Susan Café with all the cookies and cupcakes it needed. The prices were \$170 per box for cookies and \$270 per box for cupcakes. The offer was conditional that Susan Café must buy both products. In other words, the supplier would not supply just one type of product for the price indicated. If the offer was accepted, all the equipment would be scrapped and the bakery would be closed.

REQUIRED:

- (b) Explain, with supporting calculations, whether Susan Café should continue to produce its own cookies and cupcakes, or purchase them from the local supplier. (4 marks)

Finally, Susan Café decided to produce its own products, for better quality control. The bakery is operating at only 85% of its full capacity of 2000 direct labour hours per year. It is therefore decided that one more product, shortbread, will be produced to fully utilise the capacity of the bakery.

The estimated annual demand for shortbread is 3900 boxes and the selling price is \$370 per box. Additional information on the production of shortbread is provided below:

Direct material cost per box	\$180
Direct labour hour per box	$\frac{1}{6}$ hour
Labour wage rate per hour	\$90
Variable production overheads per box	\$15

REQUIRED:

- (c) (i) Calculate the contribution per direct labour hour for each of the three products. (2 marks)
- (ii) To maximise the total contributions of the bakery at its full capacity, calculate the annual production quantity for each of the three products. (3 marks)

(Total: 13 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

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

	Dr	Cr
	\$	\$
Purchases and sales	890 000	1 380 000
Ordinary shares of \$5 each, fully paid		1 200 000
Accumulated depreciation – office equipment, 1 January 2014		340 000
Trade receivables and trade payables	321 900	247 800
Retained profits, 1 January 2014		210 000
6% debentures		150 000
Cash at bank		42 000
Administrative expenses	345 000	
Inventory, 1 January 2014	156 000	
Office equipment	1 570 000	
Selling and distribution expenses	286 900	
	<u>3 569 800</u>	<u>3 569 800</u>

Additional information:

- (i) It is the company's policy to depreciate its non-current assets on a straight-line basis at an annual rate of 10%. Depreciation expenses and loss on disposal are classified as administrative expenses.
- (ii) On 1 October 2014, Nancy Company Limited traded in a piece of used office equipment with a cost of \$100 000 for a new model. The trade-in value was agreed at \$22 000. The old office equipment had an accumulated depreciation of \$52 500 on 1 January 2014. No accounting record had been made for the above arrangement. In respect of this trade-in, the company was required to pay \$140 000 for the new office equipment, \$5000 for its delivery, \$1000 for the insurance during its delivery and \$3000 to train staff to operate the new office equipment. All these expenditures had been treated as administrative expenses for 2014.
- (iii) On 1 July 2014, \$150 000 6% debentures were issued, interest being payable half-yearly on 1 January and 1 July.
- (iv) In December 2014, goods invoiced at \$30 000 were sent to a customer on a sale-or-return basis. These had been recorded as credit sales for the year. As at 31 December 2014, 75% of these goods were accepted by the customer. The remaining 25% had been included in the closing inventory at cost.
- (v) An invoice for selling expenses of \$2000 was received but not yet recorded in the books.
- (vi) Inventory as at 31 December 2014 had a cost of \$290 000. 20% of the inventory was slightly damaged and had a net realisable value of \$49 980.
- (vii) On 31 December 2014, the board of directors resolved to transfer \$100 000 to general reserve.

REQUIRED:

- (a) Prepare a statement to calculate the cost of the new office equipment in (ii) above. (3 marks)
 - (b) Prepare for Nancy Company Limited the income statement for the year ended 31 December 2014 and the statement of financial position as at that date. (14 marks)
 - (c) Explain, with a relevant accounting principle or concept, the accounting treatment of (vi) above. (3 marks)
- (Total: 20 marks)

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

<u>As at 1 January 2014</u>	<u>\$</u>
Shareholders' equity	300 000
Retained profits	40 000
Total assets	343 000
Non-current assets	101 000
Inventory	65 000
Current liabilities (Note (i))	43 000
<u>For the year ended 31 December 2014</u>	<u>\$</u>
Cash sales	60 000
Credit sales	390 000
Cash purchases	110 000
Credit purchases	132 000
Increase in current assets (not including inventory)	27 000
Increase in trade payables	3 000

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

- (i) Pearl Ltd had trade payables only as its current liabilities.
- (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 had been made by the bookkeeper.
- (iii) A physical inventory count on 4 January 2015 showed that the value of inventory on that date was \$31 700, which had been used for the computation of profits for the year 2014. During the period 1 January to 4 January 2015, there were credit purchases with a total list price of \$3000. A trade discount of 10% had been given by the supplier on these purchases and a 2% cash discount would be received if the settlement was made in two weeks. Goods costing \$5000 were sold during these 4 days.

REQUIRED:

- (a) Identify the relevant accounting principle or concept violated in (ii) above. Briefly explain. (3 marks)
- (b) Calculate the following amounts as at 31 December 2014:
- (i) inventory (2 marks)
- (ii) current assets (3 marks)
- (c) Calculate (to two decimal places) the following ratios for the year 2014:
- (i) net profit ratio (2 marks)
- (ii) quick ratio (2 marks)
- (iii) trade payables turnover (in times) (2 marks)
- (iv) inventory turnover (in times) (2 marks)

Lily Ltd and Jasmine Ltd are two listed companies in the same industry and have a similar scale of production. They have a similar share price. Their financial ratios for the year 2014 are shown below:

	<u>Lily Ltd</u>	<u>Jasmine Ltd</u>
Return on capital employed	31%	15%
Gearing ratio	25%	65%
Earnings per share	\$18	\$15.2

REQUIRED:

- (d) Pearl Ltd is planning to invest a designated amount of cash, for the same percentage of shareholding, in one of the above companies. Advise and explain which company Pearl Ltd should invest in based on the three ratios above. (4 marks)

(Total: 20 marks)

END OF PAPER

PAPER 2A
Accounting Module

General Principles of Marking

1. The answers given in this marking scheme and those brought up in light of live scripts and discussions at the Markers' Meeting are 'suggestions' only. There are answers that are not mentioned but nevertheless are equally valid.
2. Where the number of points required is specified in a question, the first listed points will be marked up to the number required, and other points crossed out as 'excess'.

.....

SECTION A

QUESTION 1

Marks

	Cash at bank				
	2014	\$	2014	\$	
½	Dec 31 Balance b/d	58 930	Dec 31 Water: direct debit	3 100	1
1	Sunny Ltd: credit transfer	12 300	Man Ltd: dishonoured cheque	19 300	1
1	Yip's Ltd	8 000	Bank charges	30	½
		79 230	Balance c/d	56 800	
		79 230		79 230	(5)

	Bank reconciliation statement as at 31 December 2014			
		\$		
	Updated balance as per cash at bank	56 800		½
	Add: Unpresented cheque: 707893	12 200		1
		69 000		
	Less: Uncredited deposit - Nam Ltd	8 620		1
	Balance as per bank statement	60 380		½
				(3)

8 marks

QUESTION 2

Marks

		Purchases ledger control				
2015		\$	2015		\$	
½	Mar 31 Allowance from suppliers	990	Mar 31	Balance b/d	8 900	½
½	Sales ledger control	4 500		Purchases	35 400	½
½	Discounts received	670				
½	Bank	19 800				
½	Returns outwards	560				
½	Balance c/d	17 780				
		44 300			44 300	

(4)

- (b) Advantages: Max. 1
- Avoid delay: total figures for trade receivables and trade payables can be produced quickly
 - Better internal control: reduce the possibility of fraud because control accounts are prepared by another bookkeeper
 - Improve accuracy: provide a check on the correctness of the postings in the ledgers
- (1 mark for each relevant advantage, max. 1 mark)

5 marks

QUESTION 3

Marks

- (a) Cost of direct materials consumed:
 $\$30\,000 + \$140\,000 + \$20\,000 - \$55\,000 = \$135\,000$ 1
- (b) Prime cost:
 $\$135\,000 + \$380\,000 = \$515\,000$ 1
- (c) Cost of goods manufactured:
 $\$515\,000 + \$330\,000 + \$18\,000 - \$33\,000 = \$830\,000$ 1
- (d) Cost of goods sold:
 $\$48\,000 + \$830\,000 - \$38\,000 = \$840\,000$ 1
- 4 marks

QUESTION 4

Marks

- (a) Contribution margin per pair of shoes:
- | | | | |
|-------------------------------|----|-----|-----|
| | \$ | \$ | |
| Selling price | | 350 | (½) |
| Direct materials | 45 | | |
| Direct labour | 55 | | |
| Variable production overheads | 18 | | |
| Sales commission | 22 | 140 | (1) |
| | | 210 | (½) |
- (b) Sales revenue = $(\$150\,000 + \$228\,000 + \$168\,000) / \$210 \times \$350 = \underline{\underline{\$910\,000}}$ 2
- (c) Total contribution: original selling price of \$350 per pair of shoes = $\$210 \times 3000 = \$630\,000$ 1
 Total contribution: new selling price of \$365 per pair of shoes = $\$225 \times 2700 = \$607\,500$ 1
 Peter Company should not raise the price because total contribution will decrease by \$22 500 1

7 marks

SECTION B

QUESTION 5

Marks

		Realisation			
		\$		\$	
1/2	Office equipment	465 000	Ron's capital: office equipment	232 500	1/2
1/2	Inventory	83 000	Loan from Tim: inventory	48 000	1/2
1/2	Trade receivables	62 000	(\$80 000 × 60%)		
1/2	Ron's capital: handling fee	1 200	Cash at bank: trade receivables	60 000	1/2
1/2	Cash at bank: realisation expenses	3 800	Trade payables: discounts received	4 824	1/2
			Loss on realisation:		
			Ron (1/6)	44 946	
			Sam (2/6)	89 892	
			Tim (3/6)	134 838	1/2
		<u>615 000</u>		<u>269 676</u>	
				<u>615 000</u>	(5)

		Capital						
		Ron	Sam	Tim	Ron	Sam	Tim	
		\$	\$	\$	\$	\$	\$	
1/2	Realisation: office equipment	232 500			112 300	30 000	190 700	1/2
1/2	Loss on realisation	44 946	89 892	134 838	1 200			1/2
	Sam's capital: share of deficiency (1:3)	14 973		44 919			196 176	1/2
1/2	Cash at bank			207 119		59 892		1/2
		<u>292 419</u>	<u>89 892</u>	<u>386 876</u>	<u>178 919</u>		<u>386 876</u>	1/2
					<u>292 419</u>	<u>89 892</u>	<u>386 876</u>	(5)

10 marks

QUESTION 6

Marks

(a)		Journal		
2014		Dr	Cr	
December 31		\$	\$	
(i)	Trade receivables	500		½
	Sales		500	½
(ii)	Rates	3000		½
	Rental deposit		3000	½
(iii)	Electricity	2250		½
	Accrued electricity		2250	½
(iv)	Suspense	1200		½
	Trade receivables		1200	½
(v)	Purchases	450		½
	Suspense	90		½
	Discounts received		540	½
(vi)	Accumulated depreciation – motor van	30 000		½
	Drawings	50 000		½
	Motor van		80 000	½
				(7)
(b)	(i) error of (complete) omission			1
	(ii) error of principle			1
	(iii) error of original entry			1
				(3)
(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
				(3)

13 marks

QUESTION 7

Marks

(a)(i) Fixed production overheads = \$286 000 + \$80 000 + \$144 000
= \$510 000

Direct labour hours = (2400 × 1/3) + (1800 × 1/2) = 1700 direct labour hours

Predetermined fixed production overhead absorption rate = \$510 000 / 1700 direct labour hours
= \$300 per direct labour hour (2)

(ii)

Cupcakes		\$	
Direct material	120		
Direct labour	45	(\$90 × 1/2)	
Variable production overheads	15		
Fixed production overheads	150	(\$300 × 1/2)	
Total production cost per box of cupcakes	<u>330</u>		(2)

(b)

Total manufacturing cost		\$	
Direct material	264 000	(\$20 × 2400 + \$120 × 1800)	1/2
Direct labour	153 000	(\$90 × 1/3 × 2400 + \$90 × 1/2 × 1800)	1/2
Variable production overheads	63 000	[\$15 × (2400 + 1800)]	1/2
Fixed production overheads (exclude depreciation)	430 000	(\$286 000 + \$144 000)	1
	<u>910 000</u>		

Total purchase cost = (\$170 × 2400) + (\$270 × 1800) = \$894 000 (1/2)

Net savings by purchasing: \$16 000 (1/2)

Susan Café should buy cookies and cupcakes from the local supplier. (1/2)

(4)

(c)

(i)

	<u>Cookies</u>	<u>Cupcakes</u>	<u>Shortbread</u>
	\$	\$	\$
Selling price per box	290	390	370
Direct material cost per box	(20)	(120)	(180)
Direct labour cost per box	(30)	(45)	(15)
Variable production overheads per box	(15)	(15)	(15)
Contribution per box	225	210	160
			(1/2)

Direct labour required per box	1/3 hour	1/2 hour	1/6 hour
Contribution per direct labour hour	\$675	\$420	\$960

Production Priority	(1/2) 2 nd	(1/2) 3 rd	(1/2) 1 st	2
---------------------	--------------------------	--------------------------	--------------------------	---

(ii)

	<u>Direct labour</u> <u>hours required</u>	<u>Annual</u> <u>production</u> <u>quantity</u>	
1. Shortbread	650	3 900	1
2. Cookies	800	2 400	1
3. Cupcakes	<u>550</u>	<u>1 100</u>	1
	2 000		(5)
			<u>13 marks</u>

SECTION C

QUESTION 8

Marks

(a)	Statement showing the calculation of the cost of the new office equipment		
		\$	
	Payment for cost	140 000	½
	Trade-in value of the old office equipment	22 000	½
	Delivery charge	5 000	½
	Insurance fee on transportation	1 000	½
	Total cost of the new office equipment	<u>168 000</u>	1
			(3)

(b)	Nancy Company Limited Income statement for the year ended 31 December 2014			
		\$	\$	
	Sales (\$1 380 000 – \$7500)		1 372 500	½
	Less: <u>Cost of goods sold</u>			
	Opening inventory	156 000		½
	Purchases	<u>890 000</u>		½
		1 046 000		
	Less: Closing inventory			
	[\$290 000 – (\$58 000 – \$49 980)]	<u>281 980</u>	764 020	1
	Gross profit		608 480	
	Less: <u>Expenses</u>			
	Administrative expenses (<i>workings</i>)	375 700		2½
	Selling and distribution expenses (\$286 900 + \$2000)	288 900		½
	Finance cost (\$150 000 × 6% × ½)	<u>4 500</u>	669 100	½
	Net loss		<u>(60 620)</u>	(6)

Workings

	Calculation of administrative expenses for the year ended 31 December 2014	
		\$
	As per trial balance	345 000
	Depreciation for 2014:	
	- Disposed office equipment (\$100 000 × 10% × ½)	7 500
	- Remaining office equipment [(\$1 570 000 – \$100 000) × 10%]	147 000
	- New office equipment (\$168 000 × 10% × ½)	4 200
	Loss on disposal of office equipment [\$100 000 – (\$52 500 + 7 500) – \$22 000]	18 000
	Cost of new office equipment (\$140 000 + \$5000 + \$1000)	<u>(146 000)</u>
		<u>375 700</u>

Nancy Company Limited
Statement of financial position as at 31 December 2014

ASSETS	\$	\$	
Non-current assets			
Office equipment (\$1 570 000 – \$100 000 + \$168 000)		1 638 000	1
Less: Accumulated depreciation (\$340 000 – \$52 500 + \$147 000 + \$4200)		<u>438 700</u>	1½
		1 199 300	
Current assets			
Inventory	281 980		½
Trade receivables (\$321 900 – \$7500)	<u>314 400</u>	<u>596 380</u>	½
TOTAL ASSETS		<u><u>1 795 680</u></u>	
EQUITY AND LIABILITIES			
Equity			
Ordinary shares of \$5 each, fully paid		1 200 000	½
General reserve		100 000	½
Retained profits (\$210 000 – \$60 620 – \$100 000)		<u>49 380</u>	1
		1 349 380	
Non-current liabilities			
6% Debentures		150 000	½
Current liabilities			
Trade payables	247 800		½
Accrued finance cost	4 500		½
Accrued selling expenses	2 000		½
Bank overdraft	<u>42 000</u>	<u>296 300</u>	½
TOTAL EQUITY AND LIABILITIES		<u><u>1 795 680</u></u>	(8)

- (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) (3)

20 marks

QUESTION 9

Marks

- (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)
- (b) (i) Inventory
 = \$31 700 – (\$3000 × 0.9) + \$5000
 = \$34 000 2
- (ii) Current assets
 = (\$343 000 – \$101 000) + \$27 000 – (\$65 000 – \$34 000)
 = \$238 000 3
- (c) (i) Net profit ratio:

$$= \frac{[(\$128\ 000 - \$40\ 000) + (\$34\ 000 - \$31\ 700) - \$2500] \times 100\%}{390\ 000 + 60\ 000}$$

$$= \frac{\$87\ 800 \times 100\%}{\$450\ 000}$$
 = 19.51% 2
- (ii) Quick ratio:

$$= \frac{\$238\ 000 - \$34\ 000}{\$43\ 000 + \$3000 + \$2500}$$

$$= \frac{\$204\ 000}{\$48\ 500}$$
 = 4.21:1 2
- (iii) Trade payables turnover (times)

$$= \frac{\$132\ 000}{(\$43\ 000 + \$46\ 000) / 2}$$

$$= \frac{\$132\ 000}{\$44\ 500}$$
 = 2.97 times 2
- (iv) Inventory turnover (times)

$$= \frac{\$65\ 000 + (\$110\ 000 + \$132\ 000) - \$34\ 000}{(\$65\ 000 + \$34\ 000) / 2}$$

$$= \frac{\$273\ 000}{\$49\ 500}$$
 = 5.52 times 2
 (13)
- (d) – Pearl Ltd should invest in Lily Ltd. 1
- Lily Ltd is a better investment because it has
 – higher return on capital employed: it has higher profitability with more efficient use of its capital to generate profits. 1
 – lower gearing ratio: it has lower degree of leverage and hence lower risk and financial burden. 1
 – higher earnings per share: it has higher profitability and the amount of profits earned for each outstanding share is higher. 1
 (4)

20 marks

END OF PAPER 2A