

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

(Sample Paper)

Time allowed: 1 hour 30 minutes

This paper must be answered in English.

GENERAL INSTRUCTIONS

1. There are TWO sections, A and B, in this Paper. Section A carries 60 marks and Section B carries 40 marks. You are advised to finish Section A in about 45 minutes.
 2. Section A consists of multiple-choice questions in this question book. Section B contains conventional questions printed separately in Question-Answer Book B.
 3. Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the spaces provided in Question-Answer Book B. **The Answer Sheet for Section A and the Question-Answer Book for Section B must be handed in separately at the end of the examination.**
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SECTION A (MULTIPLE-CHOICE QUESTIONS)

INSTRUCTIONS

1. Read the instructions on the Answer Sheet carefully. Stick a barcode label and insert the information required in the spaces provided.
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 should use an HB pencil to mark all your answers on the Answer Sheet. Wrong marks must be completely erased.
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

1. Which of the following are common arguments for social responsibility?
- (1) Profit maximization
 - (2) Lower product price
 - (3) Meet public expectation
 - (4) Improve company image
- A. (1) and (2) only
 - B. (2) and (3) only
 - C. (3) and (4) only
 - D. (1), (2), (3) and (4)
2. Which of the following statements are correct descriptions of the differences between bondholders and shareholders?
- (1) Shareholders have voting rights and bondholders do not.
 - (2) Shareholders are the owners of a company and bondholders are creditors.
 - (3) Shareholders are repaid prior to bondholders when the company is liquidated.
 - (4) Shareholders receive variable interest income whereas bondholders receive fixed amounts of interest at regular intervals.
- A. (1) and (2) only
 - B. (3) and (4) only
 - C. (1), (2) and (3) only
 - D. (1), (2) and (4) only
3. If you set up a business with your friend as a partnership, which of the following benefits would you enjoy?
- (1) You may bear limited liability.
 - (2) The company would exist as a separate legal entity.
 - (3) Management expertise offered by a board of directors.
 - (4) Company information needs not be disclosed to the public.
- A. (1) and (2) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (3) and (4) only
4. The process of allocating work and arranging a company's human resources for contributing to its objectives is known as:
- A. controlling
 - B. directing
 - C. organizing
 - D. planning
5. Which of the following managerial skills is relatively less important for top management?
- A. people skills
 - B. technical skills
 - C. conceptual skills
 - D. decision-making skills

6. Which of the following are the common arguments for globalization?
- (1) It promotes free trade
 - (2) It facilitates specialization
 - (3) It fulfils world responsibility and solves poverty problems
 - (4) It enables people to enjoy a wider variety of goods and services
- A. (1) and (2) only
 - B. (3) and (4) only
 - C. (1), (2) and (3) only
 - D. (1), (2) and (4) only
7. In which of the following financial markets will the initial public offering (IPO) of a limited company be launched?
- A. bond market
 - B. futures market
 - C. money market
 - D. securities market

Refer to the following case for Questions 8 – 9:

The board of directors of NSS Limited held a meeting to consider the acquisition of a boutique in Singapore as a way to expand its garment business internationally. Anna, the finance director, provided a series of financial analyses. However, the marketing director could not understand the information and asked, ‘Why don’t you simply give us the conclusion: Acquire or not to acquire?’

8. What kind of communication barrier has occurred in the above situation?
- A. use of jargon
 - B. time pressure
 - C. conflicting goals
 - D. different perception
9. Which of the following non-financial factors would also be relevant to the acquisition decision?
- (1) Political stability
 - (2) Market size and potential
 - (3) Cultural difference of target customers
 - (4) Communication and transportation infrastructure
- A. (1) and (4) only
 - B. (2) and (3) only
 - C. (2), (3) and (4) only
 - D. (1), (2), (3) and (4)
10. Which of the following statement(s) about entrepreneurs is(are) correct?
- (1) Entrepreneurs prefer to take high risks.
 - (2) Entrepreneurs are quick at identifying the sources of finance.
 - (3) Entrepreneurs accept failures as an integral part of business success.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1), (2) and (3)

11. Which of the following is NOT a feature of good corporate governance for a listed company?
- setting up of an audit committee
 - appointment of independent directors
 - establishment of a good security system
 - appointment of two persons to take up the positions of CEO and board chairman

Refer to the following case for Questions 12 – 13:

A number of banks from the Mainland launch their initial public offerings in Hong Kong to raise funds. Mr Lee has always wanted to take advantage of this new trend to make quick money. At the new share issue of Tai Lee Bank, a bank based on the Mainland, he subscribed for 80 000 shares on margin from a broker firm, incurring an interest charge of \$300. At last, he was allotted 5000 shares and the brokerage fee and stamp duty amounted to \$20.

The information relating to the shares of Tai Lee Bank was given below:

	<u>Par value</u>	<u>Issue price</u>	<u>Closing price on the first day of trading</u>
300 billion ordinary shares, issued and fully paid	\$1.00	\$1.28	\$1.30

12. Which of the following statements about margin trading is INCORRECT?
- Rate of loss will be magnified.
 - Rate of return will be magnified.
 - Purchase cost of shares will increase.
 - The chance of making a profit will increase.
13. What is Mr Lee's profit or loss if he sells his shares at the closing price on the first day of trading?
- profit of \$1600
 - profit of \$100
 - loss of \$80
 - loss of \$220

Refer to the following case for Questions 14 – 16:

Mr Wong has some investment in mutual funds. He had also subscribed for the bonds of Victory Ltd at a premium of 5%. One year later, he received by mail from Victory Ltd a cheque for the 5% interest. As he tried to calculate the rate of return, he found that it was lower than 5%.

14. Which of the following descriptions about Victory Ltd's bonds is correct?
- The issue price is net of interest.
 - The issue price is equal to its par value.
 - The issue price is lower than its par value.
 - The issue price is higher than its par value.
15. For the protection of the investors, all trust funds are legally required to be authorized by _____.
- The Hong Kong Monetary Authority
 - The Securities and Futures Commission
 - The Hong Kong Management Association
 - The Hong Kong Exchange and Clearing Limited

16. Mr Wong found that the effective rate of return of the bonds was lower than 5%. Which of the following is the best possible explanation for it?
- A. The par value of the bonds is higher than the purchase price.
 - B. The par value of the bonds is lower than the purchase price.
 - C. The market value of the bonds is higher than the purchase price.
 - D. The market value of the bonds is lower than the purchase price.
17. Which of the following are required to join a Mandatory Provident Fund (MPF) scheme in Hong Kong?
- (1) Self-employed hawkers
 - (2) A sole proprietor, or partner of a partnership type business
 - (3) People from overseas who work for a 2-year contract as domestic helpers
 - (4) People aged between 18 and 65 and working under an employment contract for a continuous period of not less than 60 days on a part-time basis
- A. (1) and (3) only
 - B. (2) and (3) only
 - C. (2) and (4) only
 - D. (4) only
18. Which of the following should NOT be classified as 'Purchases' by a motor van dealer?
- A. A motor van bought for showroom display
 - B. A motor van bought for trial use by customers
 - C. A motor van bought for use by the managing director
 - D. A motor van bought to be used for staff transportation but finally put into the warehouse for resale
19. A statement of financial position is _____ .
- A. a list of debits and credits
 - B. one of the accounts in the ledger
 - C. prepared to find out how much profit or loss was made during a period
 - D. a statement of the outstanding balances after the preparation of the profit and loss account
20. Which of the following incidents relating to a toy trader should NOT be recorded in the General Journal?
- A. The sale of an office desk on credit
 - B. A credit note received from a supplier
 - C. The exchange of a fax machine for a copier of equal value
 - D. Correction of a credit transfer from a customer credited to a wrong personal account
21. Which of the following statements about accounting equation is INCORRECT?
- A. $\text{Assets} - \text{Liabilities} = \text{Capital}$
 - B. $\text{Assets} - \text{Liabilities} = \text{Capital} + \text{Revenues} - \text{Expenses}$
 - C. $\text{Non-current assets} + \text{Working capital} = \text{Capital} + \text{Non-current liabilities}$
 - D. $\text{Non-current assets} + \text{Current assets} = \text{Capital} + \text{Non-current liabilities} - \text{Current liabilities}$

22. Which of the following accounts of BAFS Limited will be credited when there is an increase in amount?

- (1) Electricity expense
- (2) Loan from XYZ Company
- (3) Loan to ABC Company
- (4) Purchases returns
- (5) Rent received
- (6) Sales returns

- A. (1), (2) and (4) only
- B. (1), (3) and (6) only
- C. (2), (4) and (5) only
- D. (3), (5) and (6) only

23. The proprietor of a business draws cash from his private savings account to settle the amount owed to a creditor of the business. The ledger entries should be:

- A. Dr Accounts Payable account Cr Bank account
- B. Dr Accounts Payable account Cr Capital account
- C. Dr Drawings account Cr Accounts Payable account
- D. Dr Drawings account Cr Bank account

24. On 14 February 20X7, Biz Company issued a sales invoice to Tsang Ltd for 40 units of goods at \$100 each, less 25% trade discount. Cash discount of 5% would be allowed for settlement within 7 days. Biz Company finally received the payment on 20 February 20X7.

Which of the following are the correct journal entries to be made in the books of Tsang Ltd for the above?

	Debit \$	Credit \$															
A.	<table border="1" style="width: 100%;"> <tr> <td style="width: 60%;">Biz Company</td> <td style="text-align: right;">3 000</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Sales</td> <td></td> <td style="text-align: right;">3 000</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">2 850</td> <td></td> </tr> <tr> <td>Discounts allowed</td> <td style="text-align: right;">150</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Biz Company</td> <td></td> <td style="text-align: right;">3 000</td> </tr> </table>	Biz Company	3 000		Sales		3 000	Bank	2 850		Discounts allowed	150		Biz Company		3 000	
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25. The following is an extract from the trial balance of ACCT Company at the year end 31 December 20X6:

	Dr	Cr
	\$	\$
Beginning inventories	5 500	
Carriage inwards	440	
Carriage outwards	660	
Purchases	73 000	
Returns	5 860	3 490
Sales		113 500

Given that the amount of ending inventories was twice of the opening inventories, the cost of sales for 20X6 was _____ .

- A. \$62 080
- B. \$64 010
- C. \$64 450
- D. \$64 670

Refer to the following information for Questions 26 – 28:

The following information relates to Island Company for the year ended 31 December 20X6:

	\$
Accounts payable	5 000
Accounts receivable	6 000
Bank loan (repayable in December 20X7)	11 500
Capital as at 31 December 20X5	36 200
Capital as at 31 December 20X6	44 200
Cash	1 000
Drawings of goods by the owner	6 400
Ending inventories	12 500
Introduction of capital during 20X6	20 000
Mortgage loan (repayable in 20Y1)	60 000
Net profit for the year	15 600
Plant and machinery	80 000

26. Island Company's working capital at 31 December 20X6 amounted to _____ .

- A. \$1000
- B. \$3000
- C. \$12 500
- D. \$14 500

27. Island Company's return on capital employed for 20X6 was _____ .

- A. 19.40%
- B. 35.29%
- C. 38.81%
- D. 43.09%

28. The cash drawings by the owner during 20X6 amounted to _____ .
- A. \$1200
 - B. \$21 200
 - C. \$27 600
 - D. \$37 200
29. The going concern concept means that when preparing accounts, a firm is assumed to continue in operational existence for the foreseeable future _____.
- A. and will not cease trading
 - B. and has no intention to liquidate
 - C. but at a level of activity significantly less than the current level of activity
 - D. and has no intention to liquidate or reduce significantly the scale of operation
30. Mr Chan, a sole trader, purchased a specialized machine for the business and paid the purchase invoice by a personal cheque. The machine was listed on the statement of financial position at its original cost of \$3 000 000 although it could only be realized for \$800 000 if the business was discontinued.
- Which of the following accounting concepts is NOT applicable to the above situation?
- A. accrual
 - B. business entity
 - C. going concern
 - D. historical cost

END OF SECTION A

Go on to Question-Answer Book B for questions in Section B

B

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 1

SECTION B: Question-Answer Book B (Sample Paper)

This paper must be answered in English.

INSTRUCTIONS

- (1) Write your Candidate Number in the space provided on Page 1.
- (2) Stick barcode labels in the spaces provided on Pages 1, 3 and 5.
- (3) Refer to the general instructions on the cover of the Question Book for Section A.
- (4) The questions in this Question-Answer Book carry 40 marks. Answer **ALL** questions.
- (5) Write your answers to Section B in the spaces provided in this Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.
- (6) Supplementary answer sheets will be provided on request. Write your candidate number, fill in the question number and stick a barcode label on each sheet. Tie them loosely but securely with a string **INSIDE** this Question-Answer Book.

Please stick the barcode label here.

Candidate Number

**Marker's
Use Only**

**Examiner's
Use Only**

Marker No.

Examiner No.

Question No.	Marks	Marks
1		
2		
3		
4		
5		
6		
Total		

Answers written in the margins will not be marked.

1. List four main elements in a business plan for a new company. (4 marks)

2. Explain three external environmental factors to be considered in setting up a café. (6 marks)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Please stick the barcode label here.

3. In deciding whether to join a fashion retail chain or not, suggest two criteria for assessing the franchisor. (4 marks)

4. Mr Lee retired two years ago and has kept the \$1 000 000 retirement fund in the form of a fixed deposit at an interest rate of 4.5% per annum. His friend suggests that investment in other financial products may yield a higher return.

- (i) Name three types of financial products available in the Hong Kong securities market that Mr Chan might consider. (3 marks)

- (ii) Explain two factors Mr Lee should consider in deciding whether to invest in other financial products instead of keeping the entire amount in a fixed deposit. (4 marks)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Please stick the barcode label here.

6. Mr Chan is the owner of a furniture manufacturing and trading business. Most of the furniture was manufactured by his own factory in Hong Kong and the rest was purchased from several manufacturers in Shenzhen.

The following are the financial ratios of the business for the year ended 31 December 20X6:

	<u>Business</u>	<u>Industry average</u>
Turnover	\$1 250 000	\$1 300 000
Gross profit ratio	38%	60%
Net profit ratio	6%	42%
Current ratio	2.8:1	2.3:1
Liquid ratio	0.8:1	1.2:1

(a) Suggest two reasons why the gross profit ratio and net profit ratio of Mr Chan's business are much lower than the industry averages. (4 marks)

(b) Comment on the liquidity of Mr Chan's business in 20X6. (4 marks)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

(c) In early 20X7, Mr Chan plans to close the factory in Hong Kong and form a new business in Shenzhen. All the workers of the Hong Kong factory will then be laid off.

Propose two measures that Mr Chan could adopt to minimize the workers' dissatisfaction with their layoffs. (4 marks)

END OF PAPER

Answers written in the margins will not be marked.

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HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 2A

ACCOUNTING MODULE

(Sample Paper)

Time allowed: 2 hours 30 minutes
This paper must be answered in English.

INSTRUCTIONS

- (1) There are three sections in this paper: Section A (30 marks), Section B (50 marks) and Section C (20 marks).
- (2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.

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

SECTION A

Answer **ALL** questions in this section.

1. A company has incurred the following expenditures on a new machine purchased for business use:

	\$
List price (allowance of 20% trade discount)	800 000
Legal fees related to the purchase	5 200
Machine installation and adaptation	7 300
Maintenance fee	9 900
Testing	6 500
Initial training for operators	3 000

The manager expects the efficiency of the machine to decline sharply over its useful life. He wants to adopt a depreciation method that will best meet the nature of the machine.

REQUIRED:

- (a) Calculate the cost of the machine to be capitalised. (4 marks)
- (b) (i) Identify a depreciation method that is in line with the manager's view. (1 mark)
- (ii) Explain one advantage of the depreciation method you identified in (i). (2 marks)
- (Total: 7 marks)

2. An inexperienced accounts clerk of Silver Moon Company has drafted the following sales ledger control account for December 20X6:

	\$		\$
Balance brought forward	46 980	Cash and cheques received	310 650
Credit sales	408 530	Discounts allowed	23 027
Cash sales	60 800	Allowance for doubtful debts	6 000
Set off with purchases ledger control	18 410	Allowance to customer for slightly damaged goods	19 100
Returns inwards	28 070	Balance carried forward	204 013
	<u>562 790</u>		<u>562 790</u>

After investigation, the following errors were discovered:

- (i) Bad debts of \$30 130, written off in July 20X6, had been omitted in the control account.
- (ii) A customer, who had fully settled his account in November 20X6, returned unsatisfactory goods amounting to \$8000 in December 20X6. The amount was correctly recorded in the returns inwards account but not in the sales ledger.
- (iii) Discounts allowed had been correctly entered in the customers' accounts in the sales ledger but had been overcast by \$900 in the discount column of the cash book.

REQUIRED:

- (a) Rewrite the sales ledger control account. (7 marks)
- (b) Describe how credit balances in the sales ledger should be shown in the statement of financial position. (1 mark)
- (Total: 8 marks)

3. Lan Yan Manufacturing Company has extracted the following information as at 31 December 20X6:

	\$
Inventories as at 1 January 20X6:	
Raw materials	40 800
Work in progress	35 000
Finished goods	180 000
Royalties (based on the number of units produced)	89 000
Depreciation charge for the year:	
Plant and machinery	90 200
Delivery vehicles	897 560
Office equipment	65 377
Direct labour	60 800
Purchase of raw materials	170 000
Factory manager's salary	57 000
Rent and electricity	112 500
Administrative and selling expenses	87 300
Materials loss due to fire	50 000

Additional information:

(i) At 31 December 20X6, inventories were valued as follows:

	\$
Raw materials	77 000
Work in progress	52 000
Finished goods	175 000

(ii) It is the company's policy to apportion two-thirds of the costs common to both the factory and the office to the cost of production.

(iii) Finished goods are transferred to the sales department at cost plus 10%.

REQUIRED:

Ascertain each of the following for the year ended 31 December 20X6:

- (a) Cost of raw materials consumed (2 marks)
- (b) Prime cost (2 marks)
- (c) Production cost of finished goods (2 marks)
- (d) Transfer price of finished goods (1 mark)

(Total: 7 marks)

4. Mr Chan is running a small business selling different types of books. Worrying about the heavy recurrent costs of maintaining a computerised accounting system and the loss of data upon system failure, he insists on using a manual system to handle all the inventory records and accounting entries.

REQUIRED:

- (a) Suggest two advantages of computerised accounting system to convince Mr Chan to install one. (4 marks)
- (b) Identify four types of accounting errors that cannot be prevented by a computerised accounting system. (4 marks)

(Total: 8 marks)

SECTION B

Answer **ALL** questions in this section.

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

REQUIRED:

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

On 1 April 20X6, Leung invited Chan to form a partnership. Their partnership agreement contains the following clauses:

- (i) An interest of 10% per annum is paid on capital.
(ii) Leung and Chan share profits and losses in the ratio of 2:1.
(iii) Chan is entitled to a partner's salary of \$300 000 per annum.

Goodwill was agreed at \$60 000 on 1 April 20X6 and it was decided that no goodwill account would be kept in the books. The fixed capital of the partnership was \$360 000, to be divided between Leung and Chan in their profit and loss sharing ratio. Chan would not inject any cash as capital. The excess or deficiency in fixed capital would be transferred to or from the respective partner's current account.

The partnership continued to use the books of accounts of Leung's business. The following is the trial balance at 31 December 20X6 before making any adjustment for goodwill on Chan's admission as a partner:

	\$'000	\$'000
Sales		4 200
Cost of goods sold	2 460	
Operating expenses	660	
Chan's salary payments during the year	318	
Drawings: Leung	160	
Chan	14	
Capital: Leung		280
Current assets	750	
Non-current assets	811	
Current liabilities		693
	<u>5 173</u>	<u>5 173</u>

All sales were made on a fixed mark up and operating expenses were accrued evenly over the year.

REQUIRED:

- (b) Prepare the trading and profit and loss account of Leung's sole trader business for the three months ended 31 March 20X6. (3 marks)

- (c) Prepare the partnership's trading, profit and loss and appropriation account for the nine months ended 31 December 20X6. (5 marks)
- (d) Draw up Leung and Chan's capital accounts for the year 20X6. (4 marks)
- (Total: 15 marks)

6. The draft statement of financial position of Healthy Food Company as at 31 December 20X6 is as follows:

ASSETS	\$	\$
Office machinery	148 000	
Less: Accumulated depreciation	<u>45 300</u>	102 700
Motor vehicles	10 000	
Less: Accumulated depreciation	<u>2 500</u>	7 500
Inventories		127 600
Account receivables, net		85 500
Suspense account		<u>6 800</u>
		<u><u>330 100</u></u>
 CAPITAL AND LIABILITIES		\$
Capital		114 622
Account payables		68 750
Rates paid in advance		2 750
Bank loan (repayable on 31 December 20Y2)		100 000
Draft net profit for the year		22 068
Bank overdraft		<u>21 910</u>
		<u><u>330 100</u></u>

Subsequent to the preparation of the draft statement of financial position, the following were discovered:

- (i) On comparing the bank statement with the cash book for the month of December 20X6, the following differences were found:
 - (1) Dividend income of \$8060 had been credited directly into the bank account but the amount was recorded in the cash book as bank interest charged on the overdraft balance.
 - (2) A cheque of \$10 000 issued for paying the deposit of acquiring a motor van in February 20X7 was not yet presented to the bank for payment. The amount was recorded as the only motor vehicle of the company. Motor vehicles are depreciated at 25% per annum on cost.
- (ii) Owing to an oversight, \$1300 prepaid insurance at 31 December 20X5 had been omitted from the general ledger in 20X6. Moreover, rates of \$2750 paid in advance at 31 December 20X6 had been listed as a credit balance in the trial balance.
- (iii) At 31 December 20X6, a customer with an outstanding debt of \$10 800 was declared bankrupt and the amount was to be written off. In addition, the allowance for doubtful debts was to be reduced by \$540.
- (iv) Included in the closing inventories were goods at \$10 000 received from Royce Limited on a sale or return basis. No other entries had been made in the books in respect of these goods.

REQUIRED:

- (a) Prepare the necessary journal entries to correct the above. Narrations are not required. (8 marks)
- (b) Prepare the statement of financial position as at 31 December 20X6 in proper format. (7 marks)

(Total: 15 marks)

7. Top Four Co Ltd is a manufacturing firm specialising in producing tailor-made souvenirs. The sales manager has received an urgent order of 1000 metal photo frames at the price of \$15 each to be supplied in one week's time. The following information relates to the order:

(i) Materials:

(1) Metal bar is the material for the frame and hard plastic board for the backing. A batch of 20 photo frames requires 8 metres of metal bar and 4 pieces of standard plastic board.

(2) The metal bars are in constant use and there is sufficient stock in hand for the order. The cost information is as follows:

	\$ per metre
Historical cost	5
Current buying-in cost	7
Scrap value	2

(3) The cost of the plastic board currently in stock is \$50 per piece. It is made of a traditional material which has been banned in some western countries. The replacement price of the plastic board is currently \$70 per piece while the scrap value of that in stock is \$5 per piece. The production manager does not foresee any alternative use for the plastic board if it is not used for the order.

(ii) Direct labour

(1) Labour hours are required at 15 minutes per photo frame.

(2) The hourly rate is \$20.

(3) Being the low season, there is a total idle time of 100 hours for direct labour. However, if the job is accepted, overtime work will be required and a bonus of 50% on the normal rate has to be paid.

(iii) Overheads

(1) The overhead costs for the year ended 31 December 20X7 are budgeted as follows:

	\$'000
Depreciation (factory building)	1 000
Supervision	900
Depreciation (machinery)	450
Insurance (machinery)	150
Heating and lighting	200

(2) Overheads are allocated to the three departments on the following basis:

	Metal work	Assembly	Store
Floor area (square metres)	2 000	1 200	800
Number of employees	47	24	4
Book value of machinery	13 000	2 000	–
Number of material requisitions	3 500	500	–
Total direct labour hours	200 000	90 000	–

(3) If the order is accepted, no additional overheads will be incurred.

(iv) Pricing

The business normally adds a 10% profit on job cost to arrive at its invoice price.

REQUIRED:

- (a) Prepare an overheads distribution statement and determine the overheads absorption rate both for the metal work and assembly departments. (Correct all amounts to the nearest dollar.) (4 marks)
- (b) Based on the absorption costing method and the company's pricing policy, calculate the selling price that should be charged for the above order. (6 marks)
- (c) Should the order be accepted if the relevant cost approach is used? Support your suggestion with appropriate figures to convince the management. (6 marks)
- (d) Suggest two other factors that the management should consider before making the decision. (4 marks)

(Total: 20 marks)

SECTION C

Answer **ONE** question in this section.

8. Good Prospect Limited commences its business on 1 January 20X6 and has made a net profit of \$3 000 000 for the year ended 31 December 20X6. However, the company experienced problems in getting \$1 800 000 to finance the acquisition of a plant in Tai Po for expansion. Lee, the managing director, could not understand why the amounts in each of the following pairs of items were not equal:
- (i) net profit for the year and net increase in cash and bank balances for the year
 - (ii) bank balance in the cash book and the bank statement balance as at 31 December 20X6

REQUIRED:

- (a) Explain to the managing director why the amounts in each of the above pairs of items would differ. (6 marks)

As at 31 December 20X6, the long-term financing of Good Prospect Limited was as follows:

	\$'000
Capital and reserves	
200 000 Ordinary shares of \$10 each	2 000
150 000 12% Preference shares of \$10 each	1 500
Share premium	1 000
Retained profits	600
	<u>5 100</u>

After studying the information above, Mok, the executive director, proposed the following alternatives to finance the acquisition of the plant:

- Alternative 1: To issue 100 000 ordinary shares at \$18 per share. The annual ordinary dividend will remain at 20% on the net profit available for distribution to ordinary shareholders.
- Alternative 2: To issue \$1 800 000 8% debentures (repayable in June 20Y2) at par, payable in full on application. Debenture interest is payable twice a year on 1 January and 1 July.
- Alternative 3: To purchase the plant on credit. The terms of agreement provide for five annual payments of \$480 000, commencing at the end of the first year. Assume that interest accrues evenly over the credit period.

It was estimated that following this expansion, the profit before interest for the first financial year would amount to \$3 600 000.

REQUIRED:

- (b) Calculate the gearing ratio under each alternative immediately after the acquisition. (3 marks)
- (c) Calculate the earnings per share under each alternative for the first financial year after the expansion. (Note: Ignore taxation.) (3 marks)
- (d) Based on your answer in (b) and (c), evaluate the above three financing alternatives from the perspective of shareholders. (6 marks)
- (e) List two non-financial factors that should be taken into account before making the decision. (2 marks)

(Total: 20 marks)

9. Mary is a fresh university graduate who has majored in marketing. She is enthusiastic about conducting a business of her own alongside her full-time employment. She borrowed a sum of \$90 000 from a bank at an interest rate of 5% per annum on 1 January 20X7 to run a shop which sells free-sized T-shirts of her own design.

Information relating to the shop is as follows:

- (i) The shop's rental is \$5000 per month. The annual rates and insurance expenses are \$3600 and \$4500 respectively.
- (ii) A shop attendant is hired at a basic salary of \$7000 per month plus a commission of 5% of the sales value.
- (iii) All T-shirts are imported from factories based on the Mainland and are sold at 100% mark-up on cost.
- (iv) The budgeted sales volume is 500 shirts per month. Mary has made arrangements with the Mainland suppliers for the supply of 500 shirts each month. Then a logo sticker will be fixed on each shirt by a sewing service provider nearby at the cost of \$2 each. The purchase costs for the first quarter of 20X7 are as follows:

	\$
January 20X7	22 500
February 20X7	24 000
March 20X7	25 000

- (v) In order to publicise her new brand, Mary will print some promotional leaflets to be distributed once a week in the neighborhood. The printing cost of the leaflets amounts to \$500 per month and a part-time worker is hired at \$1000 per month for the distribution work.
- (vi) A point-of-sale system costing \$30 000 was purchased to help keep inventory record and cash transactions. In addition, Mary furnished the shop with necessary furniture and fixtures by spending a further \$60 000. Depreciation is to be calculated at 12% per annum on a reducing balance basis for the point-of-sale system and 10% on cost for the furniture and fixtures.
- (vii) The actual sales figures for the first quarter ended 31 March 20X7 are as follows:

	<u>Number of shirts</u>
January 20X7	350
February 20X7	420
March 20X7	400

REQUIRED:

- (a) Define direct costs and indirect costs and identify one example for each from the case above. (3 marks)
- (b) Compare marginal costing with absorption costing with respect to inventory valuation and income determination. (4 marks)
- (c) Prepare an income statement for the first quarter ended 31 March 20X7 using the marginal costing method, assuming the FIFO method is adopted in the valuation of unsold goods. (6 marks)
- (d) With the figures you have compiled in (c) above, calculate the breakeven point (in sales dollars) of the first quarter ended 31 March 20X7. (3 marks)

Noting that there are several giant enterprises in the low-margin garment market, Mary's father has always persuaded Mary to discontinue her small business which is unlikely to be competitive enough to survive.

REQUIRED:

- (e) Discuss two possible reasons why Mary is still enthusiastic about running a business of her own. (4 marks)

(Total: 20 marks)

END OF PAPER

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
PAPER 2B
BUSINESS MANAGEMENT MODULE

(Sample Paper)

Time allowed: 2 hours 30 minutes
This paper must be answered in English.

INSTRUCTIONS

- (1) There are three sections in this paper: Section A (30 marks), Section B (50 marks) and Section C (20 marks).
- (2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.

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

SECTION A

Answer **ALL** questions in this section.

1. Explain three reasons why customer relationship management will help increase sales. (6 marks)

2. Describe three ways in which a travel agency could satisfy the rights of consumers. (6 marks)

3. Illustrate two methods by which an import/export company could hedge against its foreign exchange risk. (4 marks)

4. Recommend two ways in which a company could manage its accounts receivable effectively. (4 marks)

5. Explain three disadvantages to a company of using interviews in the recruitment process. (6 marks)

6. Briefly describe two elements that should be included in a staff disciplinary system. (4 marks)

SECTION B

Answer **ALL** questions in this section.

7. Mr Wong has founded and managed Wai Fu Limited for more than 20 years. Mr Wong believes in exercising strict control over staff behavior and performance. He has introduced detailed work procedures and stringent rules and regulations. Very close supervision and severe punishments are imposed on staff to ensure their behavior and performance comply with the company's requirements. Furthermore, Mr Wong believes that, with such close supervision, there is no need to invest resources on staff training and development.

Over the last few years, a number of staff have left the company or retired. The education level and qualifications of the new recruits are generally better. Initially they were enthusiastic and often worked overtime for no extra pay. Later, they started to express dissatisfaction with their supervisors for strict staff control over minor matters, such as occasional late arrival of less than 5 minutes.

The number of customer complaints increased tremendously in the last two years, and the staff turnover rate reached 40% for the past 12 months. In addition, there has been a drastic drop in the company's sales and profits.

Mr Wong's son, David, has recently returned to Hong Kong from the US to take up the management of the company. After studying the situation carefully and meeting with some staff, David concludes that the company is faced with the problem of low staff morale and its first priority is to change the style of staff supervision.

David also proposes that training and development should be provided to all staff over three years but is not sure about the approach of offering the programs. He is told that hiring the service of a training consultancy firm would require an immediate payment of \$320 000 for the contract. Alternatively, if a professional trainer is employed to provide in-house training, the following payments (all made at the beginning of the respective year) will be required:

First year:	\$100 000
Second year:	\$110 000
Third year:	\$120 000

- (a) Explain why Wai Fu Limited is faced with the problem of low staff morale with respect to:
- (i) Herzberg's dual factor theory (3 marks)
 - (ii) McGregor's motivation theory (3 marks)
- (b) (i) Explain three benefits to Wai Fu Limited of providing training and development programs to staff. (6 marks)
- (ii) Describe the steps that Wai Fu Limited should adopt in the training process. (6 marks)
- (c) (i) Based on present value (PV) calculations, advise whether the company should hire a training consultancy firm or employ an in-house training professional. (Note: Assume the cost of capital is 8% per annum.) (2 marks)
- (ii) Suggest one financial factor that will cause Wai Fu Limited not to make the decision based on the PV results. (2 marks)
- (d) Discuss two non-financial factors that should be considered in deciding the approach of offering the training programs. (4 marks)

(Total: 26 marks)

8. Starlight Hotel is a four-star hotel situated in Kowloon City near the former airport. The hotel offers more than 300 guest rooms, 6 restaurants and bars, as well as other entertainment facilities. With its strategic location, the hotel enjoyed a high occupancy rate. After the relocation of the airport from Kowloon City to Chap Lap Kok, the occupancy rate of the hotel has dropped over the years. Last year, the hotel recorded a net loss in its operation.

Raymond Kwok, General Manager of the hotel, is eager to turn the situation around. With the introduction of 'Individual Visit Scheme' and the recovery of long-haul travel, Raymond is still optimistic about the hospitality industry in Hong Kong. During a management meeting, Raymond asked Winnie Chan, Marketing Manager of the hotel, 'Do you have any suggestions that can turn our situation around?'

'One of the problems we are facing is the fluctuating demand. The occupancy rate of our hotel is satisfactory during the peak periods in July and October. I think the key to increase our profit is to boost the sales during off-peak periods,' Winnie replied.

'It sounds reasonable. Apart from improving our occupancy rate during off-peak periods, we can develop a membership scheme to boost the sales of our food and beverage outlets. Guests who have paid a yearly membership fee can enjoy discounts and other privileges in our restaurants and bars,' Raymond suggested.

- (a) Illustrate three risk management strategies with respect to the operation of a hotel. (6 marks)
- (b) With respect to the characteristics of service, discuss three possible causes leading to the unsatisfactory occupancy rate of Starlight Hotel. (6 marks)
- (c) Describe the major elements of the marketing plan for the membership scheme suggested by Raymond. (8 marks)
- (d) Besides the membership scheme, propose two other ways of increasing sales during off-peak periods. (4 marks)

(Total: 24 marks)

Section C

Answer **ONE** question in this section.

9. Bertha Limited is a Hong Kong based small enterprise engaged in the manufacture and retailing of fashion for young ladies. In view of the growing popularity of its products, the company is planning to expand its business substantially. At the same time, the company is going to evaluate all its existing jobs to revise its reward system so as to attract more professionals to join the company.

- (a) Describe the assistance Bertha Limited may, as a small and medium enterprise (SME), obtain from the Government in financing its expansion. (8 marks)
- (b) Discuss why an SME and a large corporation would differ in their choice of job evaluation methods. (12 marks)

(Total: 20 marks)

10. Besides selling to individual consumers through its own retail outlets, a manufacturer of bathroom and kitchen products also sells to property development companies who buy in bulk for building residential flats.

- (a) With respect to the bulk purchase of bathroom and kitchen products, illustrate the buying decision-making process of the property development companies. (8 marks)
- (b) Compare and contrast the marketing mix strategies that the manufacturer would adopt for business buyers and individual consumers. (12 marks)

(Total: 20 marks)

END OF PAPER