

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2013

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1**

8.30am – 10.00am (1 hour 30 minutes)

This paper must be answered in English

**GENERAL INSTRUCTIONS**

- (1) There are TWO sections, A and B, in this Paper.
- (2) Section A consists of multiple-choice questions in this question paper. Section B contains short 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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**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.

**SECTION A (60 marks)**

Choose the **best** answer for each question.

1. Which of the following descriptions about a franchised shop is correct?
  - A. operates under the authorisation of franchisor
  - B. has full control over its promotion strategies
  - C. must be registered as a limited company
  - D. only applicable to retail and catering businesses
  
2. The primary function of a financial market is to transfer funds from economic units with surpluses to economic units in need of them. Which of the following sectors help performing this function?
  - (1) banking sector
  - (2) insurance sector
  - (3) securities sector
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
3. Which of the following transactions would be recorded in the General Journal?
  - A. purchase of goods on credit
  - B. goods returned from customers
  - C. introduction of office premises as capital
  - D. cash drawings for personal use by the proprietor
  
4. A company has decided to change its overall business objectives and drafted a business plan for the coming 10 years. This kind of business plan is a
  - (1) strategic plan.
  - (2) long-term plan.
  - (3) operational plan.
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
5. All the owners of a business enjoy limited liability. Although the business has no regulatory obligation to disclose its financial reports, it still publishes these reports via the internet each year. The business is a
  - A. limited partnership.
  - B. private limited company.
  - C. company listed on the Main Board.
  - D. company listed on the Growth Enterprise Market Board.
  
6. Which of the following statements is correct?
  - A. A 6-month government bill is an investment instrument in the equity market.
  - B. An investment instrument with a higher risk may yield a higher return.
  - C. Market risk can be avoided by investing in various financial products.
  - D. Investment in the preferred stock is more risky than in the common stock of a company.

7. In which of the following ways could corporate governance be promoted in a business?
- (1) introduce a code of conduct to its employees
  - (2) publicise the product catalogue to public
  - (3) invite customers to give comments
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
8. Which of the following statements are correct?
- (1) Authority can be assigned to subordinates.
  - (2) Authority is the right to direct and make decisions.
  - (3) Front-line staff do not need authority to perform their duties.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
9. King Lung Company owed Tin Tin Company \$56 000 on 1 December 2012. On 10 December 2012, Tin Tin Company sold goods costing \$80 000 at a gross profit margin of 50% to King Lung Company. On 15 December 2012, King Lung Company settled the beginning balance of the month with a cash discount of 3%. The balance of King Lung Company's account in Tin Tin Company's books as at 31 December 2012 would be:
- A. \$54 320 (credit balance)
  - B. \$104 000 (debit balance)
  - C. \$120 000 (credit balance)
  - D. \$160 000 (debit balance)
10. On 1 January 2012, Good Fortune Company signed a tenancy contract to rent an office for two years from 1 February 2012 to 31 January 2014. On the same day, it made a payment of \$208 000 to the landlord for the rent from February to March 2012 and a deposit equaled to two months' rent. The rental expense shown in the income statement for the year ended 31 December 2012 was:
- A. \$572 000
  - B. \$624 000
  - C. \$1 144 000
  - D. \$1 248 000
11. Which of the following statements regarding Small and Medium Enterprises (SMEs) in Hong Kong is correct?
- A. SMEs enjoy a lower tax rate.
  - B. SMEs can be listed on the stock exchange.
  - C. SMEs are involved in primary and secondary production only.
  - D. SMEs do not hire more than twenty employees.
12. Which of the following is not a function of World Trade Organisation?
- A. provide a forum for negotiation aimed at reducing obstacles to international trade
  - B. settle disputes among its members regarding the interpretation of trade agreements
  - C. monitor and review the trade policies of its members
  - D. provide loans and subsidies to developing countries for trade development

13. Which of the following tasks are performed by the marketing department of a company?

- (1) conducting surveys on customer needs
- (2) deciding the price of the product
- (3) paying bonus to salespersons

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

14. Which of the following items are to be provided in the income statement of a business?

- (1) profits earned during the accounting period
- (2) air freight charges for senior managers attending overseas meetings
- (3) trade discounts allowed to regular customers

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

15. A bank launches the following savings plans:

	Plan I	Plan II	Plan III
Interest rate	5% per annum	5.5% per annum	6% per annum
Frequency of interest compounding	quarterly	half-yearly	yearly

Which plan(s) offer(s) the highest return after two years?

- A. Plan I
- B. Plan II
- C. Plan III
- D. Plan I and Plan III

16. Which of the following would encourage a multi-national trading company to move its headquarters to Hong Kong?

- (1) larger number of multi-national companies than small and medium enterprises in Hong Kong
- (2) good transportation network between Hong Kong and other Asian cities
- (3) lower profits tax rate in Hong Kong

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

17. \_\_\_\_\_ promotes the stability and integrity of the banking system while \_\_\_\_\_ administers listing, trading and clearing rules in Hong Kong.

- A. Hong Kong Monetary Authority     ...     Securities and Futures Commission
- B. Hong Kong Monetary Authority     ...     Hong Kong Exchanges and Clearing Limited
- C. Securities and Futures Commission     ...     Hong Kong Monetary Authority
- D. Securities and Futures Commission     ...     Hong Kong Exchanges and Clearing Limited

Based on the following information, answer Questions 18 and 19:

The following were the account balances of King Kong Company as at 31 December 2012:

	\$
Capital	199 800
Cash in hand	25 000
Cash at bank	?
Trade receivables	10 500
Trade payables	5 500
Sales	232 000
Purchases	108 000
Inventory as at 1 January 2012	15 000
Discounts allowed	5 600
Office equipment	280 000
Administrative expenses	32 000
Returns outwards	6 800
Commission received	8 700
Carriage inwards	4 500

18. What was the balance of the cash at bank account as at 31 December 2012?
- A. \$16 600  
 B. \$27 800 (overdraft)  
 C. \$30 200  
 D. \$41 400 (overdraft)
19. If the inventory as at 31 December 2012 was \$13 400, what would be the gross profit for the year?
- A. \$117 900  
 B. \$122 400  
 C. \$124 700  
 D. \$129 200
20. The following are Peter's personal budget and actual incomes and expenses for the month of April 2013:

<u>Items</u>	<u>Budgeted amount</u>	<u>Actual amount</u>
<i>Incomes</i>	\$	\$
Salary (Part time job)	6 000	6 000
Pocket money	1 000	1 000
<i>Expenses</i>		
Transportation fees	500	560
Books and stationery	1 050	1 480
Mobile phone charges	150	150
Food and beverages	900	810
Entertainment fees	850	970
<i>Saving</i>	?	?

The budgeted saving of Peter for April 2013 is \_\_\_\_\_, which is \_\_\_\_\_ than his actual saving for the month.

- A. \$3030 ... less  
 B. \$3030 ... more  
 C. \$3550 ... less  
 D. \$3550 ... more

21. Alice sends an email to invite Benny to attend the opening ceremony of her business. Which of the following descriptions relating to the above communication process is correct?
- there must be a feedback
  - the message was not encoded
  - the message has to be decoded
  - the computer keyboard is the channel
22. Which of the following statements are correct?
- Hong Kong is an offshore Renminbi Business Centre of Mainland China.
  - The main origin and destination of Hong Kong's re-exports of goods are Mainland China.
  - "Closer Economic Partnership Arrangement" (CEPA) aims at raising capital in Hong Kong for Mainland enterprises.
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)
23. All entrepreneurs:
- earn profits by taking business risks.
  - start businesses with their own capital.
  - enter the market with new products.
  - possess extensive knowledge and experience in the business.
24. If a bank is offering you a four-year personal instalment loan plan of \$10 000 under a flat rate arrangement with the following repayment schedule:

<u>End of Year</u>	<u>Repayment Amount</u>
	\$
1	2 900
2	2 900
3	2 900
4	<u>2 900</u>
Total	<u>11 600</u>

- What is the annual flat rate of this instalment loan plan?
- 3.45%
  - 4%
  - 7.25%
  - 16%
25. Mary is a Secondary 5 student. She has just earned \$8000 from her summer job. She plans to use the money for paying her university tuition fee one year later. If she wants to keep the principal and at the same time looks for some returns, which of the following instruments is most suitable to her?
- current account
  - fixed deposit
  - blue chips
  - warrants

Based on the following information, answer Questions 26 and 27:

	Lung Hing Company	Fat Tat Company
Turnover	\$45 000 000	\$52 000 000
Gross profit ratio	28%	25%
Net profit ratio	19%	22%
Current ratio	1.81 : 1	2.43 : 1
Liquid ratio	0.75 : 1	1.65 : 1

26. Which of the following comments on the financial performance of Lung Hing Company as compared with Fat Tat Company is correct?

Lung Hing Company has

- A. higher gross profit.
  - B. higher net profit.
  - C. higher cost of goods sold.
  - D. higher operating expenses.
27. Which of the following comments on the liquidity of Lung Hing Company as compared with Fat Tat Company is correct?

Lung Hing Company has

- A. higher proportion of funds tied up in inventory.
- B. higher liquidity.
- C. more current assets to meet short-term obligations.
- D. fewer current liabilities.

28. Which of the following double entries are correct?

<u>Transactions</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1) Withdrew \$20 000 cash from the bank account for business uses.	Drawings	Bank
(2) Paid sundry expenses \$3000 in cash.	Sundry expenses	Cash
(3) Received a bank loan of \$200 000 via the bank account.	Bank	Bank loan

- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
29. A trading company provides a notebook computer with mobile internet connectivity to each member of its sales team. Which of the following are the benefits of such arrangement to the company?
- (1) help updating the sales figures
  - (2) enhance information flow between the sales team members
  - (3) facilitate communication with clients
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

30. Which of the following are tasks of accounting?

- (1) classifying and recording business transactions
  - (2) equipping the purchasing system with security measures
  - (3) summarising and reporting the performance of the company's sales periodically
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- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

**End of Section A**



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**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**

**PAPER 1**

**SECTION B : Question-Answer Book B**

8.30 am – 10.00 am (1 hour 30 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) After the announcement of the start of the examination, you should first write your Candidate Number in the space provided on Page 1.
- (2) Stick barcode labels in the spaces provided on Pages 1 and 3.
- (3) Refer to the general instructions on the cover of the Question Paper for Section A.
- (4) 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 supplied on request. Write your candidate number, mark the question number box and stick a barcode label on each sheet, and fasten them with string **INSIDE** this book.
- (7) No extra time will be given to candidates for sticking on the barcode labels or filling in the question number boxes after the 'Time is up' announcement.

Please stick the barcode label here.

Candidate Number



**SECTION B (40 marks)**

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

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

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

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

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Answers written in the margins will not be marked.

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Please stick the barcode label here.

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

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

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

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

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

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

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Answers written in the margins will not be marked.

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

2013

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

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

(8 marks)

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

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

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

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

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**END OF PAPER**

Answers written in the margins will not be marked.

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HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
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**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A**  
**Accounting Module**

10.45am – 1.15pm (2 hours 30 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**.
- (4) Supplementary answer sheets will be supplied on request. Write your candidate number, mark the question number box and stick a barcode label on each sheet, and fasten them with string **INSIDE** the answer book.

**SECTION A (30 marks)**

Answer **ALL** questions in this section.

1. The two directors of Amy Ltd believed that the company had a very good reputation in the industry. Director Lee proposed to quantify that at an amount of \$300 000 as goodwill. Director Chan agreed and the bookkeeper credited the amount to sundry revenue on 31 March 2013.

**REQUIRED:**

- (a) State and explain the accounting principle or concept that has been violated and show the journal entries to correct the above. (Narration is not required.) (4 marks)

Additional information:

- (i) The bank reconciliation statement as at 28 February 2013 was as follows:

	\$
Balance of cash at bank account as at 28 February 2013	62 300
Unpresented cheque - 201542	<u>7 800</u>
Balance as per bank statement as at 28 February 2013	<u><u>70 100</u></u>

- (ii) The cheque 201542, dated 3 September 2012, remained unpresented at 31 March 2013. It is the practice of the bank not to honour cheques outstanding for more than six months.
- (iii) Total receipts from customers and total payments to suppliers by cheque in the month of March 2013 were \$287 000 and \$82 750 respectively. All receipts were banked in March 2013. However, a cheque of \$32 110 from a customer was then found dishonoured on 28 March 2013.
- (iv) During the month of March 2013, a credit transfer of \$125 000 from a customer and dividend income of \$2840 were credited by the bank.
- (v) A management fee of \$8800 accrued for February 2013 was paid by cheque on 4 March 2013.
- (vi) A standing order for rent of \$165 500 for the month of March 2013 was executed by the bank on 8 March 2013.

**REQUIRED:**

- (b) Write up the cash at bank account for the month of March 2013. (6 marks)
- (Total: 10 marks)

2. Mr Chan commenced his retail business on 1 January 2011 and acquired five pieces of equipment costing \$135 000 each on that date. No other addition and disposal were made during 2011. Information relating to the equipment for the year ended 31 December 2012 is as follows:

	\$
Payments for new equipment – Purchase cost	280 000
– Testing fees	12 500
– Repairs and maintenance fees for 2012	42 600
Proceeds from sale of two pieces of equipment purchased in 2011	104 500

Depreciation on equipment is to be provided at a rate of 20% per annum using the reducing balance method. Full year depreciation is calculated in the year of purchase but none in the year of sale.

**REQUIRED:**

For the retail business of Mr Chan, prepare the following accounts for the year ended 31 December 2012:

- (a) Equipment account (3 marks)  
 (b) Accumulated depreciation account – Equipment (4 marks)

Mr Chan decides to apply different depreciation methods to calculate the depreciation expense on equipment in different years in order to show continuously stable operating results.

**REQUIRED:**

- (c) State and explain the accounting principle or concept violated in the above situation. (3 marks)  
 (Total: 10 marks)

3. Hansan Ltd undertakes electrical work according to customers' requirements. It has prepared the following budgeted information for the year 2014:

	\$
Direct material cost	500 000
Direct labour cost	2 850 000
Production overheads	780 000
Administrative overheads	400 000
Budgeted activity levels include:	
Machine hours	5 000 hours
Direct labour hours	60 000 hours

Hansan Ltd uses a plant-wide predetermined production overhead absorption rate based on direct labour hours to allocate production overheads to jobs.

**REQUIRED:**

- (a) Calculate the predetermined production overhead absorption rate for the year 2014. (2 marks)  
 (b) State one rationale for Hansan Ltd's choice of using the existing absorption base to calculate its predetermined production overhead absorption rate. (2 marks)

The company has to price a job that would be started and completed in 2014. Information relating to the job is as follows:

- (i) Direct materials: \$250 per metre. 100 metres are required.  
 (ii) Direct labour - Electricians: \$60 per hour. 200 hours are required.  
                                     - Apprentices: \$35 per hour. 300 hours are required.

Administrative overheads are allocated to the job based on 25% of production cost. The company maintains a net profit margin of 50%.

**REQUIRED:**

- (c) Calculate the selling price of this job, showing separately the amount of:  
     - prime cost  
     - production cost  
     - total cost (6 marks)  
 (Total: 10 marks)



**SECTION B (50 marks)**

Answer **ALL** questions in this section.

4. Carrie and Daisy have been in partnership sharing profits and losses in the ratio of 3:2. On 1 January 2012, Carrie retired from the partnership and Ellen was admitted as a new partner. The balances of the partnership before the retirement and admission were as follows:

	Dr.	Cr.
	\$	\$
Capital accounts at 1 January 2012 - Carrie		700 000
- Daisy		650 000
Current accounts at 1 January 2012 - Carrie	72 000	
- Daisy		247 000
Property, net	1 250 000	
Equipment, net	600 000	
Trade receivables	550 000	
Trade payables		275 000
Cash at bank	100 000	
Bank loan (repayable on 31 March 2016)		700 000
	<u>2 572 000</u>	<u>2 572 000</u>

Upon the retirement of Carrie and the admission of Ellen, the partners agreed on the following:

- (i) Ellen brought in \$850 000 cash into the partnership.
- (ii) The balance of Carrie's current account was to be transferred to her capital account on her retirement date.
- (iii) Property was to be revalued at \$2 320 000 and the net book value of equipment was to be decreased by 20%.
- (iv) An allowance for doubtful debts of 4% was to be made.
- (v) A cheque for \$230 000 would be paid to Carrie immediately after her retirement and the remaining balance owed would be left as a long-term interest-free loan to the new partnership.
- (vi) Goodwill was to be valued at \$350 000. No goodwill account was to be maintained in the books.
- (vii) Interest on capital at 4% per annum was to be allowed and Daisy was entitled to a salary of \$5000 per month.
- (viii) Daisy and Ellen were to share profits and losses equally.

**REQUIRED:**

- (a) Prepare the partners' capital accounts in columnar form as at 1 January 2012, showing the retirement of Carrie and admission of Ellen. (6 marks)
- (b) Prepare a statement of financial position as at 1 January 2012 after the retirement of Carrie and admission of Ellen. (6 marks)
- (c) If the net profit for the year 2012 was \$300 000, prepare the partners' current accounts in columnar form for the year ended 31 December 2012. (4 marks)
- (d) Give one reason why asset revaluation is necessary upon the retirement of a partner. (2 marks)

(Total: 18 marks)

5. Mr Luk is a retailer who does not keep proper accounting records for his business. On 31 December 2012, his accountant disappeared suddenly and all cash in hand was stolen. Some of the accounting records were also missing. After investigation, the following information is available:

- (i) All sales were made on cash basis at a uniform mark-up of 40% for the year 2012.
- (ii) A summary of receipts and payments based on the cash at bank account for the year ended 31 December 2012 showed the following:

<u>Receipts</u>	\$
Cash deposit	<u>1 203 000</u>
<u>Payments</u>	\$
Administrative expenses	226 000
Payments to suppliers	987 900
Drawings (by Mr Luk)	120 850
Selling expenses	64 300
Bank charge	<u>20 050</u>
	<u>1 419 100</u>

- (iii) During 2012, selling expenses of \$44 000 were paid in cash.
- (iv) The insurance company had agreed to compensate the business for 50% of the cash stolen.
- (v) Balances of the business as at 31 December were as follows:

	2011	2012
	\$	\$
Office equipment, net (with a cost of \$187 500)	150 000	?
Inventory	123 000	110 900
Cash at bank	392 100	?
Trade payables	149 000	102 800
Accrued administrative expenses	—	1 150
Prepaid selling expenses	20 000	—
Capital	547 000	?
Cash in hand	10 900	? (before stolen)

- (vi) Depreciation is to be provided on office equipment at a rate of 20% per annum using the straight-line method.

**REQUIRED:**

- (a) Prepare an income statement for the year ended 31 December 2012, showing the cash loss separately. (11 marks)
- (b) Prepare a statement of financial position as at 31 December 2012. (6 marks)
- (Total: 17 marks)

6. Eva Company manufactures stainless steel mailboxes. The budgeted income statement for the year 2014 is as follows:

	\$
Sales	960 000
Direct materials cost	(120 000)
Direct labour cost	(150 000)
Fixed production overheads	(190 000)
Variable production overheads	(66 000)
Fixed administrative overheads	(57 000)
Net profit	<u>377 000</u>

**REQUIRED:**

- (a) Compute for the mailboxes
- (i) the contribution margin ratio (as a percentage). (2 marks)
  - (ii) the breakeven sales for 2014. (2 marks)
  - (iii) the margin of safety (as a percentage up to two decimal places) for 2014. (2 marks)
- (b) Assume that the management of Eva Company is considering offering a 5% commission on all sales.
- (i) Recompute the contribution margin ratio (as a percentage). (2 marks)
  - (ii) Recompute the breakeven sales for 2014 (to the nearest dollar) and state the effect of the sales commission on breakeven sales. (2 marks)
  - (iii) If the management expects sales revenues to be increased by \$100 000 because of this, would you recommend Eva Company to offer the sales commission? Show your calculations. (3 marks)
- (c) Why is a decline in the margin of safety an issue of concern to the management of a company? (2 marks)
- (Total: 15 marks)

**SECTION C (20 marks)**

Answer **ONE** question in this section.

7. The balances of Able Company as at 31 December were as follows:

	2011	2012
	\$	\$
4% Long-term loans	67 000	120 000
8% Short-term loans	23 100	60 000
Accounts payables	43 300	100 200
Accounts receivables	37 500	85 864
Bank overdraft	—	15 000
Cash at bank	32 020	—
Cash in hand	200	500
Inventory	79 680	162 936
\$5 Ordinary share, fully paid	155 000	155 000
Property, plant and equipment, net	254 000	333 622
Retained profits	115 000	132 722

Additional information:

- (i) All sales were made on credit.
- (ii) On 31 December 2010, inventory and accounts receivables were \$88 320 and \$37 260 respectively.
- (iii) Total sales amount shown in the sales journal for 2011 and 2012 amounted to \$454 790 and \$625 942 respectively. Gross profit was \$96 110 for 2011 and \$230 191 for 2012. However, it was then discovered that a sales invoice of 2012 for \$14 000 had been omitted from the records of the books.
- (iv) There had been no change in share capital since 2010. The balance of the retained profits at 31 December 2010 was \$69 521.
- (v) In 2011 and 2012, no tax expenses were incurred and no dividend was declared.

**REQUIRED:**

- (a) Calculate (to two decimal places) the following ratios for 2011 and 2012 (assume 365 days per year):

- (i) current ratio
- (ii) liquid ratio
- (iii) days' sales in accounts receivables
- (iv) inventory turnover (in times)
- (v) net profit ratio
- (vi) earnings per share (14 marks)

- (b) Based on the ratios calculated in (a) above,

- (i) briefly comment on the profitability of Able Company for the year 2012. (3 marks)
- (ii) suggest three ways to improve the liquidity of Able Company. (3 marks)

(Total: 20 marks)

8. Helen Ltd sells sunglasses in three shops (A, B and C) in Hong Kong. Its budgeted income statement for the year ended 31 December 2014 is given below:

Helen Ltd		
Budgeted income statement for the year ended 31 December 2014		
	\$	\$
Sales		6 000 000
Cost of goods sold		(3 300 000)
Gross profit		2 700 000
Selling expenses - fixed rental expenses	(270 000)	
- sales commission	(630 000)	(900 000)
Administrative expenses - salaries	(560 000)	
- office expenses	(350 000)	(910 000)
Net profit		890 000

Additional budgeted information:

- (i) Sales of shop C accounted for 20% of the total company's sales.
- (ii) Gross profit ratio of shop C for 2014 is half of that for the company as a whole.
- (iii) One-third of the fixed rental expenses are from shop C. Sales commission is calculated on the basis of sales dollars.
- (iv) Administrative expenses are to be allocated to shop A, B and C in a ratio of 2:2:3 respectively.

**REQUIRED:**

- (a) Prepare a budgeted income statement for the year ended 31 December 2014 for shop C only. (6 marks)

Losses were incurred in shop C over the past two years. The management of Helen Ltd is considering closing the shop on 1 January 2014. Relevant information is as follows:

- (v) Some customers of shop C will purchase sunglasses from shop A and shop B instead. It is estimated that sales of the two shops will be increased by 10 %.
- (vi) The gross profit ratio of Helen Ltd will change to 48%.
- (vii) Landlord of shop C allows Helen Ltd to terminate the lease contract but rental deposit of \$15 000 paid will be forfeited.
- (viii) An employee currently earning \$10 000 per month in shop C will have to be made redundant and receive \$20 000 as compensation. Other employees in the shop will be transferred to the remaining shops.
- (ix) Four-fifth of the office expenses originally allocated to shop C will still have to be paid.

**REQUIRED:**

- (b) Assume that shop C is closed, prepare an overall budgeted income statement for Helen Ltd for the year ended 31 December 2014. (8 marks)
  - (c) Based on your answer in (b), briefly explain whether Helen Ltd should close shop C. (2 marks)
  - (d) State two non-financial factors that may influence Helen Ltd's decision in (c). (4 marks)
- (Total: 20 marks)

**END OF PAPER**

## 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.	A (89%)	16.	C (85%)
2.	D (49%)	17.	B (72%)
3.	C (56%)	18.	B (49%)
4.	A (63%)	19.	C (69%)
5.	B (77%)	20.	D (80%)
6.	B (82%)	21.	C (57%)
7.	B (59%)	22.	A (49%)
8.	A (81%)	23.	A (72%)
9.	D (29%)	24.	B (42%)
10.	A (18%)	25.	B (72%)
11.	B (37%)	26.	D (47%)
12.	D (67%)	27.	A (60%)
13.	A (92%)	28.	C (58%)
14.	A (39%)	29.	D (65%)
15.	C (63%)	30.	B (89%)

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

#### SECTION B

##### *General Principles of Marking*

- The answers given in this marking scheme are 'suggestions' only. Other relevant answers will also be accepted.
- Where the number of points required is specified in a question, markers will mark the first listed points up to the number required, and cross out other points as 'excess'.
- The general guidelines for points which are awarded 0 to 2 marks each are as follows:

0 mark	:	irrelevant or ambiguous answers
1 mark	:	mention of key concept or words
2 marks	:	explanation of the concept stated

### QUESTION 1

Marks

- (a) Benefits: 4
- defer payment: e.g. can purchase goods or services without paying cash instantly
  - safety: e.g. do not need to carry large amounts of cash
  - convenience: e.g. worldwide acceptance
  - privileges: e.g. can enjoy discounts or special gifts
- (2 marks for each relevant benefit, max. 4 marks)
- (b) Reasons: 2
- higher chance of collecting debt on time
  - lower default risk
- (2 marks for each relevant reason, max. 2 marks)

Total: 6 marks

### QUESTION 2

- External factors: 6
- technological, e.g. reliability of telecommunication system
  - social, e.g. language used by operators
  - economic, e.g. wages level, cross-border telephone charge
  - legal, e.g. labour law, licensing regulations
  - physical, e.g. geographical dispersion
  - political, e.g. political stability
- (2 marks for each relevant factor, max. 6 marks)

Total: 6 marks

### QUESTION 3

- (a) – business entity concept  
– it assumes a business is separated from its owner  
– private transactions of the owner should not be recorded in the books of the business  
– the bookkeeper should record it as drawings in the books  
(1 mark for each relevant point, max. 3 marks) 3
- (b) – historical cost principle  
– assets should be recorded at their cost of acquisition or production  
– subsequent changes in their market values are to be ignored  
– the bookkeeper should record \$12 000 as the cost of the notebook computer in the books  
(1 mark for each relevant point, max. 3 marks) 3

Total: 6 marks

### QUESTION 4

- Ways: 3
- store personnel data
  - handle payroll
  - take attendance
  - facilitate staff placement
- (1 mark for each relevant way, max. 3 marks)

Total: 3 marks

### Marks

Total: 8 marks

Ways:

- 6

Total: 6 marks

(a) Management by objectives

- 4

- (2 marks for each relevant advantage, max. 4 marks)

Total: 5 marks

32



## PAPER 2A Accounting Module

### *General Principles of Marking*

1. The answers given in this marking scheme are 'suggestions' only. Other relevant answers will also be accepted.
2. Where the number of points required is specified in a question, markers will mark the first listed points up to the number required, and cross out other points as 'excess'.
3. The general guidelines for points which are awarded 0 to 2 marks each are as follows:
 

0 mark	:	irrelevant or ambiguous answers
1 mark	:	mention of key concept or words
2 marks	:	explanation of the concept stated

### SECTION A

#### QUESTION 1

**Marks**

- (a) Accounting principle/concept violated:
- money measurement concept

1

Explanations:

2

- only transactions capable of being expressed in monetary terms are included in the accounting records of an entity
  - good reputation cannot be quantified in terms of money and should not be reflected in the financial statements
  - goodwill would be recorded only when it is purchased from an existing business.
- (1 mark for each relevant explanation, max. 2 marks)

	Dr \$	Cr \$	
Sundry revenue	300 000		½
Goodwill		300 000	½
			(4)

(b)

		Cash at bank	
	2013 March	\$	
½	Balance b/d (i)	62 300	
1	Trade payable (ii)	7 800	
½	Trade receivables (iii)	287 000	
½	Trade receivables (iv)	125 000	
½	Dividend income (iv)	2 840	
		484 940	

	2013 March	\$	
	Trade payables (iii)	82 750	½
	Trade receivables (iii)	32 110	1
	Accrued management fee (v)	8 800	½
	Rental fee (vi)	165 500	½
	Balance c/d	195 780	½
		484 940	
			(6)

Total: 10 marks

## QUESTION 2

Marks

		Equipment		
2012		\$	2012	\$
½	Balance b/d	675 000	Disposal of equipment	270 000
1½	Bank: Equipment purchased (\$280 000 + \$12 500)	292 500	Balance c/d	697 500
		<u>967 500</u>		<u>967 500</u>

(3)

		Accumulated depreciation – Equipment		
2012		\$	2012	\$
1	Disposal of equipment (\$270 000 × 0.2)	54 000	Balance b/d (\$675 000 × 20%)	135 000
	Balance c/d	204 300	Depreciation expenses	123 300
		<u>258 300</u>	[((\$675 000 – \$270 000) + \$292 500 – \$81 000) × 20%]	<u>258 300</u>

(4)

(c)	Accounting principle/concept violated:	
	– consistency concept	1

Explanations:

2

- same accounting policy should be applied on like items across years
- a change in depreciation method is allowed when it will result in a more true and fair presentation of the firm's financial position
- to stabilise operating results over year is not a justifiable reason for the change in depreciation method

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

(3)

Total: 10 marks

## QUESTION 3

(a)	Production overheads	\$780 000	
	Direct labour hours	<u>/ 60 000</u>	
		\$13	2

Predetermined production overhead rate = \$13 per direct labour hour

(2)

(b)	As the production of jobs in the company is labour-intensive, the best measure of overhead resources consumed by each job is direct labour hours	2
-----	--	---

(2)

		Job cost card		
		\$	\$	
	Direct materials (\$250 × 100)		25 000	
	Direct labour			
	Electricians (\$60 × 200)	12 000		
	Apprentices (\$35 × 300)	<u>10 500</u>	22 500	
	<b>Prime cost</b>		<u>47 500</u>	2
	Production overheads (\$13 × 500)		6 500	
	<b>Production cost</b>		<u>54 000</u>	1
	Administrative overheads (\$54 000 × 0.25)		13 500	
	<b>Total cost</b>		<u>67 500</u>	1½
	Profit		67 500	
	Selling price		<u>135 000</u>	1½

(6)

Total: 10 marks

SECTION B

QUESTION 4

Marks

		Capital accounts							
		Carrie	Daisy	Ellen		Carrie	Daisy	Ellen	
		\$	\$	\$		\$	\$	\$	
1	Goodwill		175 000	175 000	Balance b/d	700 000	650 000		
½	Current	72 000			Cash			850 000	½
½	Bank	230 000			Gain on	556 800	371 200		2
½	Loan from Carrie	1 164 800			revaluation (W1)				
					Goodwill	210 000	140 000		1
	Balance c/d		986 200	675 000					
		<u>1 466 800</u>	<u>1 161 200</u>	<u>850 000</u>		<u>1 466 800</u>	<u>1 161 200</u>	<u>850 000</u>	

(6)

		Daisy and Ellen			
		Statement of financial position as at 1 January 2012			
		\$	\$		
<b>Non-current assets</b>					
	Property		2 320 000	½	
	Equipment		<u>480 000</u>	½	
			2 800 000		
<b>Current assets</b>					
	Trade receivables	550 000		½	
	Less: Allowance for doubtful debts	<u>22 000</u>		½	
		528 000			
	Cash at bank (\$100 000 + \$850 000 – \$230 000)	<u>720 000</u>	<u>1 248 000</u>	1	
			<u>4 048 000</u>		
<b>Financed by:</b>					
	Capital accounts - Daisy	986 200		} ½	
	- Ellen	<u>675 000</u>			
			1 661 200		
	Current account - Daisy		<u>247 000</u>	½	
			1 908 200		
<b>Long-term liabilities</b>					
	Loan from Carrie	1 164 800		½	
	Bank loan	<u>700 000</u>	<u>1 864 800</u>	½	
<b>Current liabilities</b>					
	Trade payables		<u>275 000</u>	½	
			<u>4 048 000</u>		

(6)

		Current accounts					
		Daisy	Ellen		Daisy	Ellen	
		\$	\$		\$	\$	
½	Balance c/d	433 224	113 776	Balance b/d	247 000	—	½
				Salary to Daisy	60 000	—	1
				Interest on capital	39 448	27 000	1
				Share of profit (1:1) (W2)	<u>86 776</u>	<u>86 776</u>	1
		<u>433 224</u>	<u>113 776</u>		<u>433 224</u>	<u>113 776</u>	

(4)

**QUESTION 4 (Cont'd.)****Marks**

(d) Reasons:

2

- a partner is entitled to get a fair share of the net assets of the company upon his/her retirement
- fair values of the assets would be reflected through the asset revaluation process
- holding gains or losses would be recognised through the asset revaluation process
- the respective share of the gains and losses would be credited and debited to the capital account of the retiring partner and therefore the amount due to/from the partner can be ascertained

(2 marks for each relevant reason, max. 2 marks)

(2)

Total: 18 marks**Workings:**

(W1)

	\$
Gain on revaluation of property (\$2 320 000 - \$1 250 000)	1 070 000
– Loss on revaluation of equipment (\$600 000 × 20%)	(120 000)
– Additional allowance for doubtful debts (\$550 000 × 4%)	<u>(22 000)</u>
	<u>928 000</u>

(W2)

	\$
Profit before appropriations	300 000
Salary to Daisy	(60 000)
Interest on capital (\$986 200 × 4% + \$675 000 × 4%)	<u>(66 448)</u>
Profit to be shared	<u>173 552</u>

# QUESTION 5

Marks

(a)

Mr Luk

## Income statement for the year ended 31 December 2012

	\$	\$	
Sales ( $\$953\,800 \times 140\%$ )		1 335 320	½
Less: Cost of goods sold			
Opening inventory	123 000		½
Purchases (W1)	941 700		1½
	<u>1 064 700</u>		
Less: Closing inventory	<u>110 900</u>		½
		953 800	
Gross Profit (40% on cost)		381 520	½
Less: Expenses			
Administrative expenses ( $\$226\,000 + \$1150$ )	227 150		1
Selling expenses ( $\$64\,300 + \$44\,000 + \$20\,000$ )	128 300		1½
Bank charges	20 050		½
Cash loss ( $\$99\,220 (W2)/2$ )	49 610		3
Depreciation	<u>37 500</u>	462 610	½
Net loss		<u>(81 090)</u>	½
			(11)

(b)

Mr Luk

## Statement of financial position as at 31 December 2012

	\$	\$	
<b>Non-current assets</b>			
Office equipment, at cost		187 500	½
Less: Accumulated depreciation		<u>75 000</u>	½
		112 500	
<b>Current assets</b>			
Inventory	110 900		½
Insurance claim receivable	49 610		½
Cash at bank ( $\$392\,100 + \$1\,203\,000 - \$1\,419\,100$ )	<u>176 000</u>	336 510	1
		<u>449 010</u>	
<b>Financed by</b>			
<b>Capital</b>			
Balance as at 1 January 2012		547 000	½
Less: Net loss		<u>(81 090)</u>	½
		465 910	
Less: Drawings		<u>120 850</u>	½
		345 060	
<b>Current liabilities</b>			
Trade payables	102 800		½
Accrued administrative expenses	<u>1 150</u>	103 950	½
		<u>449 010</u>	
			(6)

Total: 17 marks

### QUESTION 5 (Cont'd.)

#### Workings:

(W1)		Trade payables	
	\$		\$
Bank	987 900	Balance b/d	149 000
Balance c/d	102 800	Purchases (balancing figure)	941 700
	<u>1 090 700</u>		<u>1 090 700</u>

(W2)		Cash	
	\$		\$
Balance b/d	10 900	Cash deposited	1 203 000
Sales	1 335 320	Selling expenses	44 000
	<u>1 346 220</u>	Cash stolen (balancing figure)	99 220
			<u>1 346 220</u>

### QUESTION 6

Marks

- (a) (i) Contribution margin ratio =  $\$624\,000 / \$960\,000 \times 100\% = \underline{65\%}$  2
- (ii) Breakeven sales =  $(\$190\,000 + \$57\,000) / 0.65 = \underline{\$380\,000}$  2
- (iii) Margin of safety =  $(\$960\,000 - \$380\,000) / \$960\,000 \times 100\% = \underline{60.42\%}$  2  
(6)
- (b) (i) Additional variable expense =  $\$960\,000 \times 0.05 = \$48\,000$  2  
New contribution margin =  $\$624\,000 - \$48\,000 = \$576\,000$   
New contribution margin ratio =  $\$576\,000 / \$960\,000 \times 100\% = \underline{60\%}$   
or  $65\% - 5\% = 60\%$
- (ii) New breakeven sales =  $\$411\,667$  2  
The amount of breakeven sales is increased by  $\$31\,667$ .
- (iii)
- |  |                |   |
|--|----------------|---|
|  | \$             |   |
| Projected contribution margin $[(\$960\,000 + \$100\,000) \times 0.6]$ | 636 000        |   |
| Budgeted contribution margin   | <u>624 000</u> |   |
| Increase in contribution margin / profit                               | <u>12 000</u>  | 2 |
- Yes, it is because the contribution margin / profit will be increased by  $\$12\,000$ . 1  
(7)
- (c) Reasons: 2
- sales are moving closer to the breakeven point
  - profit is going down and the possibility of making a loss is greater
- (1 mark for each relevant reason, max.2 marks) (2)

Total: 15 marks

# SECTION C

## QUESTION 7

Marks

		2011	2012	
(a)	(i)	Current ratio		
		$\frac{\$79\,680 + \$37\,500 + \$32\,020 + \$200}{\$43\,300 + \$23\,100}$	$\frac{\$162\,936 + (\$85\,864 + \$14\,000) + \$500}{\$100\,200 + \$60\,000 + \$15\,000}$	2½
		= 2.25 : 1	= 1.50 : 1	
	(ii)	Liquid ratio		
		$\frac{\$37\,500 + \$32\,020 + \$200}{\$43\,300 + \$23\,100}$	$\frac{(\$85\,864 + \$14\,000) + \$500}{\$100\,200 + \$60\,000 + \$15\,000}$	2
		= 1.05 : 1	= 0.57 : 1	
	(iii)	Days' sales in accounts receivables		
		$\frac{(\$37\,500 + \$37\,260) / 2}{\$454\,790} \times 365 \text{ days}$	$\frac{(\$37\,500 + \$85\,864 + \$14\,000) / 2}{\$625\,942 + \$14\,000} \times 365 \text{ days}$	2½
		= 30.00 days	= 39.17 days	
	(iv)	Inventory turnover (in times)		
		$\frac{\$454\,790 - \$96\,110}{(\$79\,680 + \$88\,320) / 2}$	$\frac{(\$625\,942 + \$14\,000) - (\$230\,191 + \$14\,000)}{(\$79\,680 + \$162\,936) / 2}$	2½
		= 4.27 times	= 3.26 times	
	(v)	Net profit ratio		
		$\frac{\$115\,000 - \$69\,521}{\$454\,790} \times 100\%$	$\frac{(\$132\,722 + \$14\,000) - \$115\,000}{\$625\,942 + \$14\,000} \times 100\%$	2½
		= 10.00%	= 4.96%	
	(vi)	Earnings per share		
		$\frac{\$115\,000 - \$69\,521}{31\,000 \text{ shares}}$	$\frac{(\$132\,722 + \$14\,000) - \$115\,000}{31\,000 \text{ shares}}$	2
		= \$1.47 per share	= \$1.02 per share	(14)
(b)	(i)	Profitability of 2012 was worse than 2011		1
		Other comments:		2
		– net profit ratio dropped substantially from 10% to 4.96%		
		– this might be the result of poor control over the operating expenses		
		– earnings per share, which is a yardstick for the performance of the company, was decreased by \$0.45		
		(1 mark for each relevant comment, max. 2 marks)		(3)
	(ii)	Ways:		
		– better control over the level of inventory kept		3
		– tighten credit policy so as to shorten its collection period from customers		
		– increase cash discounts to attract early settlement from customers		
		– issue shares instead of making loans and bank overdraft		
		(1 mark for each relevant way, max. 3 marks)		(3)

Total: 20 marks

# QUESTION 8

Marks

(a)

Helen Ltd – Shop C

Budgeted income statement for the year ended 31 December 2014

	\$	
Sales ( $\$6\,000\,000 \times 0.2$ )	1 200 000	1
Cost of goods sold	(930 000)	½
Gross profit [ $\$1\,200\,000 \times 0.225$ (W1)]	270 000	1
Selling expenses		
- Fixed rental expenses ( $\$270\,000/3$ )	(90 000)	1
- Sales commission ( $\$630\,000 \times 0.2$ )	(126 000)	1
Administrative expenses		
- Salaries ( $\$560\,000 \times 3/7$ )	(240 000)	½
- Office expenses ( $\$350\,000 \times 3/7$ )	(150 000)	½
Net loss	(336 000)	½

(6)

(b)

Helen Ltd

Budgeted income statement for the year ended 31 December 2014

	\$	
Sales ( $\$6\,000\,000 \times 0.8 \times 1.1$ )	5 280 000	1
Cost of goods sold	(2 745 600)	½
Gross profit ( $\$5\,280\,000 \times 0.48$ )	2 534 400	½
Selling expenses		
- Rental expenses of Shop A and Shop B ( $\$270\,000 \times 2/3$ )	(180 000)	½
- Rental deposit forfeited	(15 000)	½
- Sales commission ( $\$630\,000 \times 0.8 \times 1.1$ )	(554 400)	1
Administrative expenses		
- Salaries ( $\$560\,000 - \$120\,000$ )	(440 000)	1½
- Redundancy compensation	(20 000)	½
- Office expenses ( $\$350\,000 \times 4/7 + \$350\,000 \times 3/7 \times 4/5$ )	(320 000)	1½
Net profit	1 005 000	½

(8)

(c) As net profit will be increased by \$115 000 ( $\$1\,005\,000 - \$890\,000$ ), Helen Ltd should close Shop C. 2  
(2)

(d) Non-financial factors: 4  
 - The need to focus on a longer-term time horizon: A decision based on two years is too short  
 - The impact on the morale of staff working in other shops: potential threat of redundancies lead to lower morale and productivity  
 - Negative image of the company as a whole from the closure  
 (2 marks for each relevant factor, max. 4 marks) (4)

Total: 20 marks

## Workings:

(W1) Gross profit percentage as a whole =  $\$2\,700\,000 / \$6\,000\,000 \times 100\% = 45\%$   
 Gross profit percentage for Shop C =  $45\% \times \frac{1}{2} = 22.5\%$

END OF PAPER 2A