

HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

HONG KONG DIPLOMA OF SECONDARY EDUCATION

EXAMINATION 2012/13

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

MOCK EXAMINATION

PAPER 1

(SUGGESTED ANSWER)

Section A (60%)

Suggested Answers for Multiple Choices: 30@2% = 60%

| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|----|----|----|----|----|----|----|----|----|----|
| B | C | B | C | C | A | C | D | A | D |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| B | C | C | A | D | B | B | B | B | C |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| C | A | C | D | D | D | A | C | B | D |

Section B (40%)**Question 1**

(a) 2010 Gross profit percentage

$$= \frac{\$3,200}{\$5,000} \times 100\%$$

$$= 64.00\%$$

2011 Gross profit percentage

$$= \frac{\$4,600}{\$8,000} \times 100\%$$

$$= 57.50\%$$

2010 Net profit percentage

$$= \frac{\$700}{\$5,000} \times 100\%$$

$$= 14.00\%$$

2011 Net profit percentage

$$= \frac{\$2,100}{\$8,000} \times 100\%$$

$$= 26.25\%$$

Gross profit percentage*The trend:*

The gross profit percentage of 2011 (57.50%) was poorer than that of 2010 (64.00%).

The possible cause for the change:

- The cost of goods sold had increased (by 88.89%) more than that of the growth of sales (by 60%). **Or**
- Cost control was poorer in 2011. **Or**
- The cost to sales ratio had increased from 36% in 2010 to 42.50% in 2011. **Or**
- The increase in cost of goods sold was much higher than the increase in sales from 2010 to 2011.

Net profit percentage*The trend:*

The net profit percentage had increased/improved from 14.00% in 2010 to 26.25% in 2011.

The cause for the change:

- The operating expenses had been the same for the two years. It seems that there was no improvement on cost control. However, the Expenses to sales ratio actually dropped / improved from 50.00% in 2010 to 31.25% in 2011. **Or**

- Expense control has been improved in 2011. **Or**
- The drop in GP% from 64.00% in 2010 to 57.50% in 2011 (by 6.5%) was compensated by the improvement in expense control / drop in Expenses ratio from 50.00% in 2010 to 31.25% in 2011 (by 18.75%). Therefore, the NP% finally increased by 12.25% (18.75% - 6.5%).

Workings:

| | 2010 | 2011 |
|-------------------------|--|--|
| Gross profit ratio | 64.00% | 57.50% |
| Net profit ratio | 14.00% | 26.25% |
| Cost to sales ratio | 36.00% ($\frac{1800}{5000} * 100\%$) | 42.50% ($\frac{3400}{8000} * 100\%$) |
| Expenses to sales ratio | 50.00% ($\frac{2500}{5000} * 100\%$) | 31.25% ($\frac{2500}{8000} * 100\%$) |
| Sales (net) | increased by 60.00% [$\frac{(8000 - 5000)}{5000} * 100\%$] | |
| Cost of goods sold | increased by 88.89% [$\frac{(3400 - 1800)}{1800} * 100\%$] | |
| Gross profit | increased by 43.75% [$\frac{(4600 - 3200)}{3200} * 100\%$] | |

- (b) Peter would violate the business entity concept if he wants to include rent of their flat into the account. According to the business entity concept, Peter should not include any personal transactions in the business account. Rent of his flat is a personal transaction.

Or

Rent should not be included in the company's account.

- (c) Division of labour/ Specialisation of work/ Division of work

Advantages:

- Peter can specialize in those tasks (production) which he performs well.
- Peter can save the resources, such as tools or equipment in his job.
- Practice makes perfect so Peter can do his work better and faster.
- Time can be saved as Peter does not have to switch from one job (production) to another (marketing and accounting).
- It is easier to supervise as Peter does not have to travel from one place (Hong Kong) to another (Shenzhen).

- (d) Peter needs not enroll Tony into an MPF scheme since Tony is a self-employed person or a partner or not an employee.

Or

Tony is a self-employed person or a partner or not an employee, therefore, he needs to enroll himself into an MPF scheme and make mandatory contribution.

Note: Although Peter does not receive any partners' salaries, the relevant income to calculate his MPF contribution include combined profits and losses from all businesses he owns.

(Total: 13 marks)

Question 2

A.

(a) $\$15,000 \times 0.5\% \times 12 = \900

| (b) <u>Date</u> | <u>Loan balance</u> | <u>Interest to be paid</u> |
|------------------|--|--------------------------------|
| | \$ | \$ |
| 30 June 2012 | 15,000 | (a) <u>450 (15,000 x 0.03)</u> |
| 31 December 2012 | (b) <u>7,611(15,000 + 450 - 7,839)</u> | (c) <u>228 (7,611 x 0.03)</u> |

(c) Plan B:

the total interest payment (\$678) or total repayment (\$15,678) is lower than that of Plan A (\$900) or (\$15,900).

(d) Cost of credit

(factors such as administration fees, handling fees)

Other Terms of Contract

(factors such as matching repayment schedule with income pattern, collateral required, penalty for nonpayment)

Other benefits

(factors such as cash rebate, bonus points rewarded, gifts rewarded)

B.

(e) Franchise

- Easy to dominate the market / increase the market share by having many franchisees
- Faster to establish the sale channel in the new market
- Franchisees provide the capital to establish the stores
- Average cost of production/purchase can be lowered by increasing the economy of scale
- Risk diversification by sharing business opportunity with franchisees

(f) ***Raise more capital***

By listing the shares in Hong Kong stock market, the company can issue shares to the public to raise more capital to finance the expansion of business in Hong Kong.

Enhancement of public image in Hong Kong

The public perceives a listed company as a successful and reliable one. The listing of shares in Hong Kong stock market can improve the public image among Hong Kong citizens.

Exploration of cheaper form of finance

In a time of tight financial situation in Spain / Europe, the listing of shares in Hong Kong can be another channel for the raising capital at lower cost.

(Total: 15 marks)

Question 3

(a) Mr. Leung's leadership style: Autocratic leadership

Evidence: Mr. Leung set a very high sales target for next year without consulting the district marketing managers.

Miss Wong's leadership style: Participative/Democratic leadership

Evidence: Miss Wong discussed with her subordinates and agreed with them on the new monthly sales target.

(b) Mr. Leung: Autocratic leadership

(i) Employees' characteristics

Inexperienced / Passive / Dependent employees / Not willing to take up job responsibilities

(ii) Nature of the decision

In a crisis or urgent situation when a quick decision is required. or

The information needed for decision-making is available only to the managers. or

The decision is likely to be resisted by the workers.

(c) Reason:

- Two-way communication takes place at sales meetings and immediate feedback can be encouraged. Miss Wong's subordinates may need to discuss the issue with her at the sales meeting. When Miss Wong informs her subordinates about the company policy, she may want to listen to their concerns and have their feedback immediately.
- The sales meeting serves to encourage lateral communication. The shop managers cannot communicate with each other if the sales meeting is cancelled. They may fail to coordinate their tasks, solve problems or share their working experience.
- Feedback can be obtained almost immediately at a sales meeting. This allows the sender to make sure that the receiver has received the message. The sender can also check whether the message has been received correctly by the receivers. Sales reports and notices on board are written communication and are one-way communication. Misunderstandings can occur.
- Sales meetings offer two-way communication which can promote trustful relationships and mutual understanding between people.

(d) Reason for conflict of interest:

- Shareholders demand both dividends and capital growth in share price but CEO prefers to retain the company's profits to maximize return on the company's investment.
- CEO may make decisions to increase short-term profits in order to receive extra bonus. However, the decisions may harm the image, goodwill and credibility of the company in the long run. The share prices of the company may go down and the shareholders suffer losses as a result.

(Total: 12 marks)

END OF PAPER