

HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

2019-2020 S6 MOCK EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

Marking Scheme

SECTION A (60 marks) Multiple-choice Questions

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

SECTION B(30 marks)Short Questions

1. (a) (Private) Limited company
The shareholders of a limited company can enjoy limited liability
 - (b) Profit tax rate of limited companies is higher
The set-up cost of a limited company is higher
The legal and audit fees in operation of a limited company is higher.
 - (c) If the reputation of one franchisee is adversely affected, the customers may lose confidence on the whole franchise and the sales prospects of May's business will also be adversely affected.
2. — \$201,500 ($20,000 \times 10 \times 95\% + 11,500$)
— Historical cost
The office equipment account should be valued at the cost of purchase.
— Subsequent changes in their current values should be ignored. i.e. the market price is irrelevant.
The computers should be recorded as \$190,000 instead of \$100,000.
3. (a) — As the investment horizons of these two plans are different, the future values of the two projects are not comparable.
— The future values of Plan 1 and Plan 2 are arrived at the end of year 3 and year 2 respectively, they are not arrived at the same point of time. So they are not comparable.
 - (b) The Hang Seng Index reflects the daily stock price movements of the largest companies. It indicates the trend of overall stock market performance in Hong Kong. The downward movement of the index in the past three months shows that the prospect of the general economic environment is bad.
Many professionals have predicted that the HIS will continue to drop, it negatively affects the decision of stock investment.
 - (c) John may invest in the debentures because:
Lower risk: Debenture holders have a higher priority than shareholders to get back their money invested when the company winds up, the risk of investing debenture is lower.
Investment horizon: In this case, the horizon of investing in the debentures is shorter than that in the stock.
If John would like to get the money back earlier, he will choose the debentures instead of the stock.
4. (a) **Sense of responsibility:**
Compared to working at office, it is more difficult for the management to exercise close supervision to subordinates who lack the sense of responsibility via WFH policy.
Resources and support:
Some tasks require frequent support from the supervisor or resources in the workplace. These tasks could not be completed individually at home.
Nature of work
The supervisor is technically unable to delegate authority and responsibility to subordinates who are working at home since some tasks are important or may need the intense cooperation between colleagues which cannot be completed at home.
Monitoring system
Due to the unprecedented work-from-home policy, there is no comprehensive monitoring system in the business, which makes it difficult for superiors to supervise subordinates effectively.
 - (b) The management should set a performance standard specifically for WFH policy.
The management should develop an adequate method to measure the actual performance for staff working from home.
The management should monitor the progress of their subordinate by remote control and explore if there is any discrepancy between the standard and actual performance/compare the actual performance with the standard.

Part 2 (10 marks) Answer ONE question in this part.

5 (a)

Trade Payables					
2020		\$	2020		\$
Feb 9	Returns Outwards (38,000/4)	9,500	Feb 1	Balance b/d	31,000
Feb 16	Bank (27,000 x 90%)	24,300	Feb 2	Purchases (15,000 x 2 x 90%)	27,000
Feb 16	Discounts received (27,000 x 10%)	2,700	Feb 4	Purchases (40,000 – 2,000)	38,000
Feb 29	Bank	61,500	Feb 4	Carriage inwards	2,000
Feb 29	Balance c/d	10,000	Feb 21	Purchases	10,000
		<u>108,000</u>			<u>108,000</u>

(b) Recording transactions

Classifying data

(c) Global Sourcing

— The production of medical equipment requires different kinds of raw materials. These materials are needed to be sourced from all over the world.

— The suspension of international transportation from many countries may affect the procurement of raw materials, therefore it hinders the production of medical equipment.

Outsourcing to other countries

— Most of the international medical equipment companies outsourced their production process to factories in the Mainland China.

— The production process may be affected as people are quarantined in the Mainland China during that period and factories may be forced to stop all the production of equipment.

Keen competition of companies around the world

— Since the demand for medical equipment increases, more companies around the world enter this industry, more competitors need the materials to produce the equipment, it is more difficult for suppliers to purchase the required materials.

6 (a)

Chan

Statement of Financial Position as at 31 December 2019

	\$	\$
Non-current assets		
Premises		562,000
Loan to a customer (Repayable in 1 January 2021)		100,000
		<u>662,000</u>
Current assets		
Inventory (bal. fig)	40,180	
Trade receivables (880 + 1,700)	2,580	
Cash in advance to suppliers	3,000	
	<u>45,760</u>	
Less Current liabilities: :		
Trade payables (2,430 + 920 + 2,440)	5,790	
Bank overdraft	2,120	
	<u>7,910</u>	
Net current assets		37,850
Less: Non-current liabilities		
Deposit from a customer		(100,000)
		<u>599,850</u>
Financed by:		
Capital		
Balance as at 1 January 2019 (balancing figure)		600,000
Less: Net loss		150
		<u>599,850</u>

(b) Quick Ratio: = $(2,580 + 3,000) / 7,910 : 1 = 0.71 : 1$

(c) Financial planning

- Need to obtain long term funds externally to improve the cash position.
- Need to tighten expenses budget to reduce expenditures or cash outflows.

Working capital management

- Relax the credit policy such as lengthening credit period/policy or offering extra cash discounts to attract sales and enhance the turnover o inventory.

Financial control

- Better financial control to avoid over spending.