

FANLING LUTHERAN SECONDARY SCHOOL

2016 - 2017 S6 Mock Examination

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

Marking Scheme

SECTION A

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

SECTION B (30 marks) Short Questions**Part 1 (20 marks)** Answer **ALL** questions in this part.

1.

- (a) Unity of command has been violated in the above case.
- (b) — The marketing specialist and the shop manager may give conflicting instructions. This might create confusion among the salespeople. They are unable to carry out their jobs.
- Both the marketing specialist and the shop manager can give instructions to the salespeople. It is easy for them to come into conflict. Internal competition might adversely affect the company's operation.

(6 marks)

2 (a)

Alice Co
Trial Balance as at 31 October 2016

	<i>Dr</i>	<i>Cr</i>
	\$	\$
Furniture and fixtures	500,000	
Bank overdraft		30,000
Trade receivables	60,000	
Trade payables		45,000
Inventory, 31 October 2016	25,000	
Bank loan, repayable on 1 January 2022		60,000
Cash	600	
Bank loan, repayable on 30 June 2017		40,000
Capital, 31 October 2016 (balancing figure)		410,600
	585,600	585,600

- (b) Acid test ratio = (Current assets – Inventory) ÷ Current liabilities
- = (\$60,000 + \$600) ÷ (\$30,000 + \$45,000 + \$40,000)
- = 0.53 : 1

(7 marks)

3.

- (a) — Kevin has voting rights in important decisions made by Deco Ltd at its annual general meetings.
- Kevin has the right to receive dividends if declared.
- Kevin has the right to claim against Deco Ltd's assets when the company is wound up. However, he has the lowest priority on claims compared with bondholders (creditors) and preferred stockholders.
- (b) — An increase in interest rates means that Deco Ltd needs to pay more interest when it borrows money to finance its activities.
- This will increase its operating costs and reduce its profits. As a result, Deco Ltd's stock price will drop.

(7 marks)

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

4 (a)

Apollo & Co
Income Statement for the year ended 31 March 2016

Sales			5,000,000
Less Returns inwards			88,000
			4,911,700
Less Cost of goods sold:			
Opening inventory	228,000		
Add Purchases	2,500,000		
	2,728,000		
Less Closing inventory	139,500		2,588,500
Gross profit			2,323,200
Less Expenses:			
Wages and salaries	600,000		
Rent and rates	240,000		
Other operating expenses	8,500		848,500
Net profit			1,474,700

- (b) — A franchise is a business arrangement in which the franchisor (i.e., Apollo & Co) allows the franchisee to sell its goods (i.e., household items) in return for a franchise fee.

The reasons why Lucas rejects operating the business under a franchise arrangement are

- Apollo & Co needs to make a huge investment to build the franchise system and infrastructure, and to provide training and support to franchisees.
- Apollo & Co may not have complete control over its business. Franchisees may ruin the reputation of the business if they manage their outlets poorly.
- Apollo & Co may need to disclose confidential information to franchisees who may become its future competitors.

(10 marks)

5 (a)

Carol Ng
Statement of Financial Position as at 30 June 2016

	\$	\$
<i>Non-current assets</i>		
Cleaning equipment		800,000
Motor vehicles		300,000
		<u>1,100,000</u>
<i>Current assets</i>		
Trade receivables	20,000	
Bank	50,000	
Cash	70,000	
	<u>140,000</u>	
<i>Less Current liabilities:</i>		
Bank loan, repayable on 1 January 2017	30,000	
Trade payables	30,000	
	<u>60,000</u>	
Net current assets		80,000
		<u>1,180,000</u>
<i>Financed by:</i>		
<i>Capital</i>		
Balance as at 1 July 2015		900,000
Add Net profit for the year		320,000
		<u>1,220,000</u>
Less Drawings (balancing figure)		40,000
		<u>1,180,000</u>

- (b) — provides specialised cleaning services which society needs.
- provides jobs in Hong Kong. Carol Ng is self-employed and has 10 employees.
- supports the business sector. It provides businesses with necessary cleaning services.

(10 marks)