

**Paper 2A**  
**Accounting Module**

**SECTION A**  
**QUESTION 1**

**Marks**

Rental income						
	2020	Details	\$	2020	Details	\$
1	31 Dec	Profit and loss (F)	(G) 806 000	1 Jan	Balance b/d	(A) 130 000
				2 Apr	Bank (B)	(C) 390 000
				31 Dec	Balance c/d (D)	(E) 286 000
			<u>806 000</u>			<u>806 000</u>

  

Repair and maintenance expenses						
	2020	Details	\$	2020	Details	\$
0.5	31 Jan	Bank	(I) 15 600	1 Jan	Balance b/d	(H) 10 400
	30 Apr	Bank	(I) 15 600	31 Dec	Profit and loss (M)	(N) 67 600
	31 Jul	Bank	(I) 15 600			
0.5	31 Oct	Bank	(J) 18 720			
1	31 Dec	Balance c/d (K)	(L) 12 480			
			<u>78 000</u>			<u>78 000</u>

**8 marks**

## QUESTION 2

Marks

(a)	2020 Dec	Cash at bank			
	Sunny Limited	\$	2020 Dec	\$	
0.5		43 520	Balance b/d	5 629	0.5
1	Dividend income	2 472	Electricity expenses	2 830	0.5
			Bank charges	125	0.5
			Fanny Company	7 210	0.5
			Balance c/d	30 198	0.5
		<u>45 992</u>		<u>45 992</u>	
					(4)

(4)

		Bank reconciliation statement as at 31 December 2020		
(b)	Adjusted balance as per cash at bank account	\$	30 198	0.5
	Add: Unpresented cheque - 321012		<u>12 400</u>	0.5
			42 598	
	Less: Uncredited deposit - Kitty Limited		<u>3 510</u>	0.5
	Balance as per bank statement		<u>39 088</u>	0.5

(2)

Alternative answer:

		Bank reconciliation statement as at 31 December 2020		
	Balance as per bank statement	\$	39 088	0.5
	Add: Uncredited deposit - Kitty Limited		<u>3 510</u>	0.5
			42 598	
	Less: Unpresented cheque - 321012		<u>12 400</u>	0.5
	Adjusted balance as per cash at bank account		<u>30 198</u>	0.5

- (c)
- realisation principle 1
  - revenue should be recognised only after the services have been provided, so the receipt from Fanny Company should not be recorded as revenue in 2020 1

(2)

8 marks

### QUESTION 3

(a) (1)

Direct material cost  
Direct labour cost  
Fixed manufacturing overhead costs  
Production cost per unit

Surfboard
\$
120
70
240
<u>430</u>

(2)

Selling price  
Less: Variable costs  
Direct material cost  
Direct labour cost  
Selling expenses  
Contribution margin per unit

Paddle	Kayak	Surfboard
\$	\$	\$
80	500	400
25	300	120
4	12	70
1	18	10
<u>50</u>	<u>170</u>	<u>200</u>

Contribution margin per sales mix of paddles and kayaks:  
 $(\$50 \times 2) + \$170 = \$270$  per sales mix

(b) Contribution margin required for surfboards =  $(\$120\,000 + \$120\,000 + \$960\,000) - (3\,000 \times \$270)$   
 = \$390 000

Sales quantity of surfboards next year =  $\$390\,000 / \$200$  per unit  
 = 1 950 units

(c) Contribution margin required for paddles and kayaks =  $(\$1\,200\,000 + \$270\,000) - (4\,920 \times \$200)$   
 = \$486 000

Quantity of sales mix of paddles and kayaks =  $\$486\,000 / \$270$  per sales mix = 1 800 sales mix

Sales quantity of paddles = 1 800 sales mix  $\times$  2  
 = 3 600 units

Marks

1

1

1  
(3)

1

1  
(2)

2

0.5

0.5  
(3)

8 marks



SECTION B  
QUESTION 4

Marks

Cash Book				Cash Book				Marks
2021	Discount \$	Cash \$	Bank \$	2021	Discount \$	Cash \$	Bank \$	
Mar 1 Balance b/d		18 500		Mar 1 Balance b/d			800	0.5
Mar 2 Trade receivables- Mandy	280		5 320	Mar 3 Trade payables- Vincy	40	2 400		1
Mar 10 Sales			12 100	Mar 6 Purchases			14 400	0.5
Mar 24 Trade receivables - Susan	3 240		77 760	Mar 25 Operating expenses		12 300		0.5
				Mar 31 Carriage inwards			2 700	0.5
				Mar 31 Balance c/d		3 800	77 280	
	3 520	18 500	95 180		40	18 500	95 180	(6)

Jacky Company Income statement for the month ended 31 March 2021				Marks
		\$	\$	
Sales	(220 x \$55) + (1 800 x \$54)		109 300	0.5
Less: Returns inwards	(300 x \$54)		16 200	0.5
			93 100	
Less: Cost of goods sold				
Opening inventory		16 500		0.5
Add: Purchases	[\$14 400 + (\$36 x 2 000 x 95%)]	82 800		0.5
Add: Carriage inwards		2 700		0.5
		102 000		
Less: Closing inventory (\$102 000 x 1 280/3 000) (Working 1)		43 520	58 480	1.5
Gross profit			34 620	
Add: Discounts received			40	0.5
			34 660	
Less: Expenses				
Operating expenses (\$12 300 + \$1 000)		13 300		0.5
Discounts allowed		3 520	16 820	0.5
Net profit			17 840	0.5
				(6)

12 marks

Working 1:

Closing inventory quantity = 550 + (450 + 2 000) - (220 + 1 800 - 300) = 1 280 units

Unit cost (Weighted average cost method) = (\$16 500 + \$14 400 + \$68 400 + \$2 700) / (550 + 450 + 2 000)  
= \$102 000 / 3 000 = \$34 per unit

Closing inventory = 1 280 units x \$34 per unit = \$43 520



(a)		Trade receivables				Marks
		\$				
0.5	Balance b/d			Return towards	\$	
0.5	Sales	25 000		Bank	5 600	1
		320 000		Trade payables	298 000	0.5
				Balance c/d	320	0.5
					41 000	
					<u>343 600</u>	
		<u>345 000</u>				

(b)	Statement of Financial Position	
	Assets	Liabilities and Equity
	Trade receivables	Trade payables
	Bank	Balance c/d

(a)	Statement to calculate the total purchases for the year ended 31 March 2021					(3)
	Cost of goods sold (\$320 000 - \$5 600)			\$		
	Add: Closing inventory (\$34 000 - \$15 000 - \$13 000 + \$2 000)			104 800		1
				<u>38 000</u>		1
	Less: Opening Inventory			142 800		
	Purchases for the year 2021			<u>22 000</u>		0.5
				<u>120 800</u>		0.5

(c)

		Trade payables				120 800	0.5
		\$					0.5
0.5	Bank			Balance b/d	\$		(3)
0.5	Trade receivables	80 000		Purchases		16 000	0.5
	Balance c/d	320			(\$120 800 x 0.75)	90 600	0.5
		<u>26 280</u>					0.5
		<u>106 600</u>				<u>106 600</u>	

(d)

(d)	Statement to calculate the working capital as at 31 March 2021					(2)
	<u>Current assets</u>			\$		
	Inventory			38 000		0.5
	Trade receivables			41 080		0.5
	Bank (\$355 900 + 298 000 - \$80 000 - \$150 000)			423 900		0.5
	Cash [\$49 600 - (\$120 800 x 0.25)]			<u>19 400</u>		1
	Total current assets			<u>522 380</u>		
	<u>Less: Current liabilities</u>					
	Trade payables			26 280		0.5
	Accrued rental expenses			<u>7 500</u>		0.5
	Total current liabilities			<u>33 780</u>		
	Working capital as at 31 March 2021			<u>488 600</u>		0.5
						(4)

12 marks

# QUESTION 6

Marks

(a)(1) X [\$1 060 000 - (\$4 x 240 000)]  
Y [\$460 000 - (\$3 x 120 000)]  
Z [\$140 000 - (\$2 x 20 000)]  
Total indirect labour cost

\$  
100 000  
100 000  
100 000  
300 000

0.5  
0.5  
0.5  
0.5

(a)(2) Fixed manufacturing overheads to be allocated:  
X (\$456 000 x  $\frac{240\,000}{380\,000}$ )

\$  
288 000

0.5

Y (\$456 000 x  $\frac{120\,000}{380\,000}$ )

144 000

0.5

Z (\$456 000 x  $\frac{20\,000}{380\,000}$ )

24 000

0.5

(a)(3) Unit variable manufacturing overheads:  
X  $\frac{(\$480\,000 - \$288\,000)}{240\,000 \text{ units}}$

\$0.8/unit

0.5

Y  $\frac{(\$390\,000 - \$144\,000)}{120\,000 \text{ units}}$

\$2.05/unit

0.5

Z  $\frac{(\$80\,000 - \$24\,000)}{20\,000 \text{ units}}$

\$2.8/unit

0.5

(5)

(b)(1) Unit contribution margin of Product X if the proposal is accepted:  
Original unit contribution margin of Product X  
Reduction in sales revenue per unit  
Increase in direct labour cost per unit

\$  
2.7  
(0.2)  
(0.04)  
2.46

0.5  
0.5  
0.5  
0.5  
(2)

(b)(2) Statement to calculate the total profits or losses for the coming quarter

	\$	\$	
Total contribution margins of X and Y	(\$2.46 x 250 000) + (\$2.45 x 120 000) = 615 000 + 294 000	909 000	1.5
Less: Fixed cost			
Fixed labour cost (\$300 000 - \$36 000)	264 000		1
Fixed manufacturing overheads [\$456 000 - (\$24 000 x 38%)]	446 880	710 880	1
Total profits after discontinuation of Z		<u>198 120</u>	0.5

(4)

(c) The proposal should not be accepted as the resulting total profit (\$198 120) would be lower than the total profit earned with the production of Z (\$270 000).

(1)

12 marks



SECTION C

QUESTION 7

(a)(1)

Holly Limited			
Income statement for the year ended 31 December 2020			
	\$	\$	Marks
Sales ( $\$4\,080\,000 - \$45\,000 \times 30\%$ )		4 066 500	1
<u>Less: Cost of goods sold</u>			
Opening inventory	119 000		
Add: Purchases ( $\$2\,736\,000 - \$70 \times 100$ )	2 729 000		0.5
	2 848 000		1
<u>Less: Closing inventory</u>			
{ $\$135\,000 - [\$32\,000 - (\$26\,200 - \$2\,200)] + (\$45\,000 \times 30\% \times 100/150)$	129 000	2 719 000	
- \$ 7 000}		1 347 500	1.5
Gross profit			
<u>Less: Expenses</u>			
Debenture interest ( $\$300\,000 \times 8\%$ )	24 000		
Rent and rates	360 000		0.5
Salaries	190 000		
Depreciation - office equipment [ $(\$1\,970\,000 - \$962\,000) \times 20\%$ ]	201 600		0.5
Depreciation - motor vans			0.5
[ $(\$980\,000 - \$180\,000 - \$160\,000) \times 25\% + (\$180\,000 \times 25\% \times 8/12) +$			
$(\$160\,000 \times 25\% \times 3/12)$ ]	200 000		
Loss on disposal of motor van [ $\$180\,000 - (\$180\,000 \times 25\% \times 3 \frac{2}{12})$ ]	37 500	1 013 100	1.5
Net profit		334 400	1
			(8)

(a)(2)

Statement to calculate the retained profits as at 31 December 2020			
	\$	\$	
Retained profits, 1 January 2020		546 000	0.5
Add: Profit for the year		334 400	0.5
		880 400	
Less: 2019 final dividend	220 000		0.5
2020 interim dividend	150 000		0.5
Transfer to general reserve	100 000	470 000	0.5
Retained profits, 31 December 2020		410 400	0.5
			(3)



QUESTION 7 (con't)  
(a)(3)

Marks

Statement of financial position as at 31 December 2020			
Assets			
Non-current assets			
	Cost	Accumulated depreciation	Net book value
	\$	\$	\$
Office equipment (\$962 000 + \$201 600)			
Motor vans (\$528 000 + \$200 000 - \$142 500)	1 970 000	1 163 600	806 400
	800 000	585 500	214 500
	<u>2 770 000</u>	<u>1 749 100</u>	<u>1 020 900</u>
Current assets			
Inventory			
Trade receivables [\$1 577 000 - (\$45 000 × 30%) - \$36 500]		129 000	
Bank (\$424 000 + \$36 500)		1 527 000	
Total assets		<u>460 500</u>	<u>2 116 500</u>
Equity and liabilities			
Equity			
Ordinary share capital (\$1 400 000 + \$150 000)			
Retained profits			1 550 000
General reserves (\$150 000 + \$100 000)			410 400
			<u>250 000</u>
			<u>2 210 400</u>
Current liabilities			
Trade payables (\$598 000 - \$70 × 100)			
Accrued debenture interest		591 000	
Application monies for ordinary shares		6 000	
8% debentures		30 000	
Total equity and liabilities		<u>300 000</u>	<u>927 000</u>
			<u>3 137 400</u>

- (b) No. As the final dividend was declared in 2021, so there is no obligation for the company to pay the dividend at the end of 2020. 2

20 marks

# QUESTION 8

Marks

		Current account		2019			
		Wong	Wu	Wong	Wu		
		\$	\$	\$	\$		
2019							
	Balance b/d		147 000	132 000			
	Appropriation:			48 000			
	interest on drawings	5 000	800	13 900	18 000		
1	Balance c/d	188 900			13 900		1
0.5					115 900		1
		193 900	147 800	193 900	147 800		0.5

(4)

Working 1:

Appropriation account for the year ended 31 December 2019

		\$	\$
Net profit for the year (\$90 000 - \$2 000)			
Add: Interest on drawings - Wong (\$150 000 x 5% x <sup>8</sup> / <sub>12</sub> )		5 000	88 000
- Wu (\$96 000 x 5% x <sup>2</sup> / <sub>12</sub> )		800	
			5 800
			93 800
Less: Interest on capital - Wong (\$800 000 x 6%)		48 000	
- Wu (\$300 000 x 6%)		18 000	
			66 000
			27 800
Share of profits:			
Wong			13 900
Wu			13 900
			27 800

(b)

		Capital account					
		Wong	Wu	Chau	Wong	Wu	Chau
		\$	\$	\$	\$	\$	\$
0.5	Capital: goodwill	60 000	60 000	40 000	800 000	300 000	
0.5	Balance c/d	874 350	374 350	400 000	80 000	80 000	
					54 350	54 350	
							150 000
							290 000
		934 350	434 350	440 000	934 350	434 350	440 000

(4)

Working 2:

		Revaluation account	
		\$	\$
Allowance for doubtful accounts (\$315 000 x 2%)		6 300	
Capital - Wong: revaluation profit ( <sup>1</sup> / <sub>2</sub> )		54 350	
Capital - Wu: revaluation profit ( <sup>1</sup> / <sub>2</sub> )		54 350	
		115 000	
Office equipment (\$1 005 000 - \$890 000)			115 000
			115 000

QUESTION 8 (con't)

Marks

(2)

Reasons:

- asset revaluation reflects the fair value of assets
- existing partners are entitled to get a fair share of the net assets of the partnership upon admission of a new partner to ascertain their capital account balances

(2 marks for each reason, max 2 marks)

(d)

		Realisation account		
		\$	\$	
Office equipment	800 000	Bank: office equipment	640 000	0.5
Inventories	168 000	(\$800 000 × 84% - \$32 000)	100 000	0.5
Trade receivables	340 000	Bank: inventory	54 000	0.5
Capital - Chau: realisation expenses	3 600	Capital - Chau: inventory	331 600	0.5
		Bank: trade receivables	5 000	0.5
		Trade payables: discounts received		
		(\$250 000 × 40% × 5%)	67 875	
		Capital - Wong: loss on realisation ( $\frac{3}{8}$ )	67 875	1
		Capital - Wu: loss on realisation ( $\frac{3}{8}$ )	45 250	
		Capital - Chau: loss on realisation ( $\frac{2}{8}$ )	1 311 600	
	1 311 600			(5)

(e)

		Capital account							
		Wong \$	Wu \$	Chau \$		Wong \$	Wu \$	Chau \$	
1	Current (W3)		241 150	33 500	Balance b/d	874 350	374 350	400 000	0.5
0.5	Realisation: inventory			54 000	Current (W3)	63 650			0.5
0.5	Realisation: loss	67 875	67 875	45 250	Realisation			3 600	0.5
1.5	Bank	870 125	65 325	270 850					
		<u>938 000</u>	<u>374 350</u>	<u>403 600</u>		<u>938 000</u>	<u>374 350</u>	<u>403 600</u>	(5)

Working 3:

		Current account							
2020		Wong	Wu	Chau	2020	Wong	Wu	Chau	
		\$	\$	\$		\$	\$	\$	
Balance b/d (from a)			115 900		Balance b/d (from a)	188 900			
Appropriation: share of loss (\$284 000 + \$50 000)		125 250	125 250	83 500	Appropriation: partner's salary			50 000	
Capital		63 650			Capital		241 150	33 500	
		188 900	241 150	83 500		188 900	241 150	83 500	

20 marks

End of Paper 2A



# Paper 2B

## Business Management Module

### SECTION A

#### QUESTION 1

Marks  
6

Objectives:

- evaluates insurance agents' performance to give feedback and make human resources decisions, e.g. promotion and salary adjustment
- identifies training needs, e.g. enrich product knowledge, improve selling techniques
- enhances insurance agents' understanding of the company's goals, e.g. improve understanding of performance standards and company's overall objectives

(2 marks for each objective, max. 6 marks)

6 marks

Marks  
2

#### QUESTION 2

(a) Economic Order Quantity:

$$\sqrt{\frac{2 \times 1200 \times 600}{25}} = 240 \text{ cartons}$$

(b) Variables:

- lead time: the number of days it takes from placing the order to the delivery of milk to the manufacturer
- safety stock: the amount of milk kept to cope with unexpected situations

2

2  
6 marks

Marks

#### QUESTION 3

(a) Personal selling:

- salespersons promote products to customers through personal presentations in order to make sales

2

(b) Advantages:

- enables salespersons to explain product information to customers and obtain feedback directly, so as to provide customised services to satisfy customers' particular needs
- facilitates the building of customer relationships through personal interaction and communication, encouraging customers to develop a preference for the product

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

4

6 marks

#### QUESTION 4

(a) concentrated marketing

Marks  
1

Disadvantage:

- involves higher risks as the company's revenue relies heavily on one small market segment

1

(b) Possible causes:

- unpredictable decrease in market demand: e.g. entry of competitors, poor business environment
- inefficiency of sales forces, sales channels cannot perform effectively due to a change in environment
- too optimistic/over-estimation of the sales quantity when budgeting

4

(2 marks for each possible cause, max. 4 marks)

6 marks

# SECTION B

## QUESTION 5

Marks

- (a) (i) stratified random sampling:  
e.g. parents are divided into several mutually exclusive groups according to the age/gender of their children and random samples are drawn from each group 2
- (ii) Other sampling techniques: 2
- random sampling: every parent in the population has an equal chance of being selected
  - convenience sampling: parents are selected from the population because of their easy accessibility
- (2 marks for each technique, max. 2 marks)
- (b) - penetration pricing strategy 1
- to capture market share quickly 1
- (c) - liability insurance 1
- to cover losses arising from injuries to children when playing with the toy cars 1
- (d) Ways: 4
- people inherently dislike work/people have little ambition and try to avoid responsibility/people want stability and resist change: e.g. define job duties and scope of the salespeople clearly
  - people prefer monetary rewards: e.g. increase the pay and fringe benefits of salespeople with good performance
  - people prefer to be led: e.g. provide appropriate guidance and supervision
- (2 marks for each way, max. 4 marks)
- (e) (i) Net present value: 2
- $$(-\$3\,500\,000 + \frac{\$1\,000\,000}{1.04} + \frac{\$1\,000\,000}{1.04^2} + \frac{\$1\,000\,000}{1.04^3} + \frac{\$1\,000\,000}{1.04^4})$$
- = \$129 895
- (ii) Non-financial factors: 4
- marketing: e.g. acceptance from existing customers/ability to attract new customers
  - human resources: e.g. availability of experienced staff to set up and operate the e-shop
  - information management: system security and capacity, e.g. hacking of customer database and system breakdown
  - operations: e.g. availability and security of various online payment methods, stockout risk
- (2 marks for each non-financial factor, max. 4 marks)

18 marks

# QUESTION 6

	Marks
(a) (i) total assets turnover (2020): $\$170/(\$50 + \$16) = 2.58$ times	2
(ii) total assets, including fixtures and furniture, would increase greatly, but sales would not increase in proportion instantly	2
(b) Reasons:	4
– to match the time frame of the project, e.g. short-term loan is not suitable as re-financing may be needed	
– to lower the financial burden, e.g. regular repayment of principal and interest could be avoided by equity financing	
(2 marks for each reason, max. 4 marks)	
(c) Benefits:	4
– more promotional channels, e.g. invite KOLs to demonstrate the use of the electronic cooking plate on different social platforms to strengthen brand reputation	
– increase service availability/round-the-clock operations, e.g. customers can place orders via KOLs' websites at any time	
– better customer relationships, e.g. customer interaction with KOLs could enhance communication and facilitate the collection of customer feedback	
(2 marks for each benefit, max. 4 marks)	
(d) Disadvantages:	4
– lower morale	
– the new senior manager needs time to adapt to the organisational culture and build up working relationships with existing staff	
– time-consuming and costly to find suitable candidates	
(2 marks for each disadvantage, max. 4 marks)	
(e) Advantages:	2
– wider networking and more sources of candidates	
– provide professional advice on the hiring process	
(2 marks for each advantage, max. 2 marks)	

18 marks



SECTION C  
QUESTION 7

Marks

- (a)
- manpower planning, e.g. review the demand for workers and formulate appropriate actions
  - staffing and placement, e.g. stop recruitment, assign trainers to other centres according to their skills and experience, ask full-time trainers to work part-time
  - training, e.g. provide training according to job re-assignments, such as kickboxing
  - performance appraisal, e.g. review the performance appraisal reports of trainers and lay off those with poor performance
  - compensation and benefits, e.g. revise the total compensation package to save costs
  - employee relations, e.g. maintain morale of the trainers through better communication
- (3 marks for each human resources function, max. 12 marks)

12

(b)

Objective	Example
to better understand the needs and requirements of existing customers for the formulation of appropriate marketing strategies	to assign a personal trainer to each customer so as to respond to their individual needs promptly
to enhance the loyalty of existing customers	increase bonding by offering membership schemes/higher rebates for longer contract terms
to facilitate cross-selling and up-selling	sportswear/outfits, gymnastic equipment
to attract new customers through existing customers	referral scheme

(3 marks for each objective, max. 8 marks)

8

20 marks

## QUESTION 1

Marks

- (a) Factors:
- costs, e.g. cost of establishing its own branches and commission to the retail chain
  - control of sales, e.g. whether the company wants to have greater control of the sales and promotion of products
  - customer relations, e.g. whether the company wants to provide professional advice to customers and collect their feedback directly
  - customer base, e.g. whether the company has connections with its potential customers, whether customers prefer visiting the branches in person
  - availability of expertise, e.g. whether the company has an experienced sales team to sell and explain product features to customers
- (3 marks for each factor, max. 12 marks)

12

- (b) Credit standard:
- capital: whether the company has sufficient capital to back up its debt, e.g. whether the company's gearing ratio is too high
  - capacity: whether the company has the ability to meet its obligations, e.g. whether the cash flow of the company is sufficient
  - collateral: whether the company has sufficient assets to secure the debt, e.g. premises to act as security for the loan
  - character: whether the company has a sense of responsibility with regard to repaying the debt, e.g. credit history of the company
  - condition: whether the general economic environment is favourable to the industry, e.g. unemployment rate may affect consumers' buying behaviour
- (2 marks for each point, max. 8 marks)

8

20 marks

END OF PAPER 2B

## Candidates' Performance

9 041 candidates sat the Business, Accounting and Financial Studies examination this year: 6 479 candidates chose the Accounting Module and the remaining 2 562 chose the Business Management Module. Approximately 56% of candidates sat the English papers.

### Paper 1

#### Section A

There were 30 multiple-choice questions in this section. The mean mark was 32 out of 60 marks.

The percentage correct was lower in the following questions:

1. Which of the following statements about the World Trade Organization is/are correct?

- (1) It enforces the rules of international trade among members.
- (2) It helps developing countries increase their trading opportunities.
- (3) It eliminates trade barriers among members.

- A. (1) only (11%)
- B. (1) and (2) only\* (17%)
- C. (2) and (3) only (23%)
- D. (1), (2) and (3) (49%)

The World Trade Organization lowers, instead of eliminating trade barriers among members.

6. On 1 February 2021, Mr Lee set up a retail firm selling computers. On the same day, the firm purchased ten sets of computers on credit from a supplier at a cost of \$4 500 each. During February, two sets of damaged computers were returned to the supplier and three sets of computers were sold at a selling price of \$7 000 each.

What is the balance of the purchases account of the firm as at 28 February 2021?

- A. \$22 500 (16%)
- B. \$31 500 (5%)
- C. \$36 000 (46%)
- D. \$45 000\* (33%)

The purchases account only records the cost of goods purchased. Returns outwards and sales are separately recorded in other accounts.



13. Which of the following statements about a trial balance is/are correct?

- (1) If the trial balance agrees, there are no errors in the account balances.
- (2) The trial balance shows all the account balances of a firm.
- (3) If the total of the debit side of an account is smaller than the credit side, the account balance is shown in the credit column of a trial balance.

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

(14%)  
(43%)  
(7%)  
(36%)

Even if the trial balance agrees, there may still be errors in the account balances, e.g. an error on one side may be compensated by an error of the same amount on the other side. If the total of the debit side of an account is smaller than the credit side, the account has a credit balance, which is shown in the credit column of the trial balance.

15. Which of the following about the statement of financial position is/are correct?

- (1) It reveals the liquidity of a firm.
- (2) Non-current assets are listed according to their total amounts in descending order.
- (3) It reveals the financial status of a firm for a period of time.

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

(22%)  
(3%)  
(66%)  
(9%)

The statement of financial position shows the balances of assets, capital and liabilities of a firm at a certain time.

28. A Mainland frozen food company plans to establish a branch in Hong Kong. Which of the following is/are the support provided by the company's information manager to the marketing manager?

- (1) process data about the frozen food market in Hong Kong
- (2) collect information about suppliers of freezing systems
- (3) set up a salary scheme for the salespersons

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

(28%)  
(65%)  
(2%)  
(5%)

The information manager assists the collection of information about suppliers of freezing systems for the operations manager.

Section B  
Part I

Question Number	Performance in General
1 (a)	Very good. Many candidates were able to explain that the business is a multinational corporation.
(b) (i)	Very good. Many candidates were able to identify the current form of ownership of the business.
(ii)	Fair. Many candidates were able to cite the disadvantages, but they failed to give appropriate explanations. Some candidates did not make a comparison of the disadvantages of the two forms of ownership. Some just stated the characteristics of a public limited company.
2 (a) (i)	Poor. Most candidates were unable to point out that the Hang Seng Index reflected the general price level of the shares listed in Hong Kong.
(ii)	Poor. Most candidates failed to explain how the Hang Seng Index could help investors make investment decisions. Some candidates mistakenly thought that the Hang Seng Index reflected the performance of all the shares listed in Hong Kong.
(b)	Fair. Most candidates were able to state that the new policy would lead to an increase in the share price of the real estate development company. However, many of them failed to explain the reason for the increase in share price with reference to the background of the company and/or the case scenario.
(c)	Poor. Some candidates wrongly listed out the responsibilities, instead of the rights of the share investors.
3 (a)	Good. Many candidates were able to prepare the two nominal accounts and complete the double entries. However, some candidates failed to identify the nominal accounts and prepared all the corresponding accounts listed in the bank account.
(b)	Satisfactory. Many candidates were able to calculate the overdraft balance of the bank account. However, some of them classified the bank overdraft balance as a current asset instead of a current liability. Some candidates showed the other parts of the statement of financial position, which was not required by the question.
(c)	Satisfactory. Most candidates were able to state the business entity concept as answer. However, some of them failed to explain the meaning of the concept with reference to the case context.



Part 2		Performance in General	
Question Number	Popularity		
4 (A) (a) (i)(ii)	29%	Good. Many candidates were able to work out the working capital ratio and acid test ratio. However, some candidates failed to present the figures in the form of X:1 or round the answer to two decimals.	
(b)		Fair. Many candidates were able to point out that the two ratios were higher than the industry averages and hence the firm would be able to meet its short-term debts. However, only a few candidates mentioned the large difference between the two ratios and hence concluded that there were current assets tied up in inventory. Some candidates compared the ratios with the casual rule of thumb of 2:1 and 1:1 instead of the industry averages given in the question.	
(B) (c) (i)		Satisfactory. Many candidates managed to name 'unity of direction', but some others stated 'management by objectives'.	
(ii)		Poor. Many candidates failed to explain the advantages of adopting unity of direction with reference to the case scenario. Some candidates just explained the benefits from the view of the staff.	
5 (A) (a)	71%	Very good. Many candidates were able to prepare the income statement and arrive at the net profit figure correctly. However, some candidates failed to present the income statement in a proper format. Proper indication of subtraction of certain items was not seen in some scripts.	
(b)		Fair. Some candidates were able to explain one use to the government of the income statement of a business.	
(B) (c)		Poor. Only a few candidates were able to draw the organisation chart of the business. Most candidates failed to provide a proper title for the superior of the three department managers.	
(d) (i)		Good. Many candidates were able to name the human resources manager.	
(ii)		Poor. While many candidates were able to explain how the human resources manager exercises its line authority, many of them failed to give appropriate explanations regarding its staff authority.	

#### General comments and suggestions

Candidates were weak in applying business knowledge and analysing case scenarios. They spent much effort on recalling textbook contents and marking schemes for similar questions in past papers. Candidates should study the case information and requirements of the questions carefully and relate their answers to the case background as far as possible. For questions requiring the application of knowledge and/or analysis of information, the answers should be supported by appropriate explanations and/or arguments.



Section A

Question Number	Performance in General
1	<p>Satisfactory. Most candidates provided correct answers for items B, C and I. However, many did not show the rental income in arrears (item E) nor the repair and maintenance expenses owing (item L) as balances carried down (items D and K) as at 31 December 2020. The transfers of the amounts of rental income (item G) and repair and maintenance expenses (item N) to profit and loss (items F and M) at year end were not properly dealt with by some candidates.</p>
2	<p>(a) Good. Most candidates were able to update the cash at bank account with dividend income, electricity expenses, bank charges and the credit transfer from Sunny Limited. However, many candidates failed to credit the post-dated cheque of Fanny Company. Some candidates did not notice that the original balance carried down of the cash at bank account as at 31 December 2020 was a credit balance, i.e. an overdraft, and wrongly showed it as a debit balance in the updated cash at bank account. Some candidates failed to use the correct account names as descriptions of the postings in the cash at bank account.</p> <p>(b) Satisfactory. Many candidates were able to prepare the bank reconciliation statement correctly. However, some candidates confused 'unpresented cheque' with 'uncredited deposit'.</p> <p>(c) Fair. Many candidates failed to identify the 'realisation principle' as the most relevant accounting principle for the scenario. While some candidates wrongly stated the 'accrual concept' as their answer, others stated the appropriate principle but failed to explain that revenue should be recognised only after the services have been provided.</p>
3	<p>(a) Satisfactory. Most candidates were able to identify direct material costs and direct labour costs as production costs as well as variable costs. However, some candidates mistakenly treated selling expenses as production costs. While some candidates wrongly included fixed manufacturing overhead costs in the calculation of contribution margin, others were either unable to apply the sales mix ratio in the computation of contribution margin for multiple products or wrongly worked out the contribution margin per unit instead of the contribution margin per sales mix.</p> <p>(b) Poor. Many candidates failed to determine the contribution margin and sales quantity required to break even for surfboards when the sales quantity for kayaks and paddles were given. Some candidates wrongly computed the breakeven point at product level instead of company level.</p> <p>(c) Fair. Many candidates were able to include the target profit in the calculation. However, they failed to determine the contribution margin required to achieve the target profit for kayaks and paddles when the sales quantity of surfboards was known.</p>



Section B

Question Number	Popularity	Performance in General
4 (a)	45%	Good. Most candidates demonstrated a basic understanding of the three-column cash book. However, many candidates failed to use proper account names as descriptions for the postings in the cash book. Some candidates did not arrive at the correct amounts for the settlements and cash discounts relating to credit purchases and credit sales.
(b)		Fair. Most candidates were able to compute the amounts of sales, returns inwards, purchases and carriage inwards. However, many candidates did not include carriage inwards as part of the cost when using the weighted average cost method to calculate the unit cost of closing inventory. Some candidates ignored the prepaid operating expenses as at 1 March 2021 in the calculation of operating expenses.
5 (a)	40%	Satisfactory. Most candidates were able to record the general transactions in the trade receivables account. However, many candidates failed to understand the nature and the accounting treatment for credit notes issued by the business.
(b)		Poor. Most candidates failed to find out the total amount of purchases. Some candidates failed to consider the transactions that took place between 1 April to 6 April to arrive at the closing inventory as at 31 March. Candidates were generally weak in presenting their answers in statement form.
(c)		Satisfactory. Most candidates were able to record the general transactions in the trade payables account.
(d)		Poor. Though many candidates were able to classify the items into current assets and current liabilities, they were not able to present the accurate figures for some of the items. Some candidates limited themselves to listing the items without showing the calculation of working capital.
6 (a)	15%	Good. Most candidates were able to work out the correct amounts for indirect labour cost, fixed manufacturing overheads and unit variable manufacturing overheads for Products X, Y and Z respectively. Some candidates failed to provide the total amount of indirect labour cost.
(b)(1)		Fair. Some candidates were able to incorporate the changes derived from the proposal to work out the unit contribution margin of Product X. Many of them failed to calculate the revised direct labour cost and selling price.
(2)		Poor. Most candidates failed to get the total profit or loss of the company as a whole in the coming quarter. They did not follow the instruction to start the statement with the total contribution margins of Product X and Product Y. In addition, they did not consider that the proposal would affect the fixed costs of the company as a whole.
(c)		Fair. Many candidates were not able to give a correct conclusion with proper supporting reason.



Section C

Question Number	Popularity	Performance in General
7 (a) (1)	38%	Fair. Most candidates were able to prepare the income statement in proper format. However, many candidates failed to calculate the value of closing inventory accurately since they did not fully understand the issues relating to sale-or-return, free samples and net realisable value. Some candidates mistakenly calculated full-year depreciation on a fully depreciated motor van that was still in use by the company.
(2)		Fair. Most candidates were able to show the appropriate items to calculate the closing balance of the retained profits in a statement form.
(3)		Poor. Many candidates were able to prepare the statement of financial position in the proper format. However, many candidates failed to record the credit transfer from a customer properly. Some candidates ignored the maturity date of the debenture and mistakenly listed the debenture as a non-current liability.
(b)		Poor. Most candidates failed to explain whether the final dividend should be recorded as a liability of 2020.
8 (a)	62%	Poor. Many candidates were able to calculate the interest on drawings, interest on capital and share of profit accurately, but they failed to use proper account names (i.e. appropriation) to describe these items in the current account. Some candidates mistakenly treated the unpaid interest on Wu's loan as an appropriation of profit and recorded it in Wu's current account.
(b)		Good. Many candidates were able to handle the treatment of goodwill properly, but some candidates failed to calculate the profit on revaluation accurately.
(c)		Poor. Most candidates failed to point out the reason for asset revaluation upon the admission of a new partner.
(d)		Satisfactory. Many candidates were able to use correct account names as descriptions for the accounting entries in the realisation account. Some candidates did not record the realisation expense in Chau's capital account since they ignored that Chau paid the expense on behalf of the partnership.
(e)		Poor. Many candidates failed to transfer the correct balances of the current accounts to the capital accounts upon dissolution of the partnership.

**General comments and suggestions**

Candidates are expected to possess a broad understanding of the topics in the curriculum and be able to give appropriate answers based on the scenarios given in the questions. Appropriate account names should be used to describe entries in the accounts and answers should be presented in accordance with the requirements of the questions. Candidates should show workings in their answers so that they can get some step marks even if the final answer is wrong.



Performance in General

Question Number	
1	Fair. Many candidates were able to explain the objectives of conducting performance appraisal in the context of an insurance company. However, some just gave general objectives such as 'bring more profit', 'increase motivation or 'enhance loyalty'.
2 (a)	Satisfactory. Many candidates were able to calculate the Economic Order Quantity. However, some confused the ordering cost and carrying cost in the calculation or failed to present the answer in the correct unit.
(b)	Poor. Some candidates were able to state 'safety stock' as a variable involved in the determination of the re-order level. However, most explanations were unclear and many candidates gave wrong variables, e.g. 'delivery time', 'ordering cost' or 'carrying cost'.
3 (a)	Fair. Many candidates were able to explain the meaning of personal selling. However, some candidates failed to mention promoting the products by salespersons.
(b)	Fair. Many candidates were able to describe the advantages of using personal selling. However, some candidates failed to explain the advantages with reference to a computer company.
4 (a)	Satisfactory. Most candidates were able to identify the type of target marketing strategy. However, many candidates failed to state the disadvantage of concentrated marketing that it relies on one small market segment.
(b)	Poor. Some candidates were able to explain the causes of sales-volume variance. Many candidates confused sales-volume variance and material/labour variance. Consequently, they mistakenly explained the causes of material variance or labour variance.

Section B

Question Number		Popularity	Performance in General
5	(a)(i)	82%	Fair. Some candidates failed to use 'parents' as the target for stratification or were unable to point out that samples should be 'randomly' drawn from each stratum.
	(ii)		Satisfactory. Many candidates were able to suggest another sampling technique, though some candidates wrongly used targets other than parents for data collection.
	(b)		Satisfactory. Many candidates were able to give 'penetration pricing' with a valid objective as their answer.
	(c)		Poor. Many candidates failed to state the correct type of insurance though some of them were able to explain the purpose of taking out an insurance.
	(d)		Fair. Some candidates failed to suggest ways to improve the morale of the salespersons with reference to the characteristics of Theory X. They only quoted from the case the reasons why the employees were dissatisfied.
	(e)(i)		Fair. Many candidates failed to calculate the net present value of the project correctly when the cash flows are generated bi-annually, though some of them were able to show the discounting process.
	(ii)		Poor. Many candidates wrongly gave external environmental factors as their answers. Some candidates explained the advantages of setting up the e-shop without considering from the perspective of key business functions.
	(a)(i)	18%	Fair. Many candidates did not understand the meaning of total assets turnover and failed to calculate the ratio correctly.
	(ii)		Poor. Many candidates did not understand the meaning of total assets turnover and so they were not able to explain why the ratio would drop in the case scenario.
	(b)		Fair. Many candidates explained 'time frame' and 'interest burden' as the reasons to support the suggestion of sourcing the funds in other ways. However, some of their explanation was unclear and inaccurate.
	(c)		Poor. Some candidates were able to explain the benefits of e-marketing generally, e.g. more promotion opportunities and no time constraints. However, many candidates failed to link the explanation to key opinion leaders as stated in the case.
	(d)		Satisfactory. Most candidates were able to explain the disadvantages of recruiting the senior manager externally.
	(e)		Poor. Some candidates were able to give an advantage of recruiting the senior manager via a headhunter, but many of them only provided the benefits of external recruitment.



## Section C

Question Number		Popularity	Performance in General
7	(a)	44%	Fair. Many candidates failed to make reference to human resources functions when they suggested ways to deal with the surplus of trainers. The solutions proposed by some candidates were too general that they did not directly address the problem of 'surplus of trainers'. For example, they suggested that more training should be provided to trainers without relevant elaboration.
	(b)		Fair. Many candidates were able to propose various ways to achieve the objectives of customer relationship management, but they failed to clearly point out how these ways were linked to the corresponding objectives. Some candidates merely listed the examples such as providing add-on services, but they did not elaborate how the ways could be applied to Sunshine Fitness.
8	(a)	56%	Poor. Some candidates were able to identify the relevant factors when considering establishing its own physical stores or expanding the sales channels to include a large retail chain. However, most of them failed to explicitly explain the differences between the two options for each factor. For example, in terms of 'cost', some candidates did not explain that Starry Company needs to pay rent if setting up its own stores whereas commission should be considered if choosing sales channels for expansion.
	(b)		Satisfactory. Many candidates were able to explain how the bank assesses the credit standard before approving the loan by adopting the 5Cs.

**General comments and suggestions**

Candidates need to pay attention to the situation and requirements of the questions. They tended to rely on memorisation and repeated general points provided by books and past papers in their answers. They need to strengthen their ability to apply knowledge and concepts to specific contexts.



## 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.

### General Notes on Marking

1. Teachers are strongly advised to conduct their own internal standardisation procedures using the marking scheme before the actual marking begins. After standardisation, teachers should adhere to the marking scheme to ensure a uniform standard of marking within the school.
2. The marking scheme may not exhaust all possible answers for each question. Teachers should exercise their professional discretion and judgment in accepting alternative answers that are not in the marking scheme but are correct and well reasoned.
3. In questions asking for a specified number of reasons or examples etc., if a student gives more than the required number, the extra answers should not be marked. For instance, in a question asking students to provide two examples, if a student gives three, only the first two should be marked.
4. The general guidelines for answers which are awarded 0 to 3 marks each are as follows:
  - 0 marks : irrelevant or ambiguous answer
  - 1 mark : relevant phrases containing key words that answer the question
  - 2 / 3 marks : a relevant point or answer with a brief explanation of the concept/key words and/or illustration of how it is related to the given scenario

## PAPER 1

### SECTION A

Question No.	Key	Question No.	Key
1.	B (17%)	16.	B (70%)
2.	D (30%)	17.	B (55%)
3.	C (56%)	18.	A (55%)
4.	C (40%)	19.	D (42%)
5.	B (44%)	20.	A (65%)
6.	D (33%)	21.	D (78%)
7.	D (63%)	22.	D (80%)
8.	C (78%)	23.	B (67%)
9.	C (55%)	24.	D (78%)
10.	B (46%)	25.	C (55%)
11.	B (74%)	26.	C (60%)
12.	C (69%)	27.	C (48%)
13.	D (36%)	28.	A (28%)
14.	A (52%)	29.	B (67%)
15.	A (22%)	30.	A (56%)

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



# SECTION B PART 1

## QUESTION 1

- (a) It is a multinational corporation  
it operates in more than one country
- (b) (i) Private limited company
- (ii) Disadvantages:  
as the shares are freely transferable, existing shareholders may lose control of the company  
more rules and requirements, e.g. release of financial information, compliance with the listing rules  
higher administrative costs, e.g. auditing, accounting, listing and setup procedures  
(2 marks for each disadvantage, max. 4 marks)

Marks

1  
1  
1  
4

7 marks

## QUESTION 2

- (a) (i) it reflects the general price level of the shares listed on the Stock Exchange of Hong Kong
- (ii) Ways: → Make investment decisions  
- assess the general performance of the Hong Kong stock market/real estate development sector  
- compare the performance of the Hong Kong stock market/real estate development sector over time  
(1 mark for each way, max. 1 mark)

Marks

1  
1

- (b) - the number of visitors to shopping malls and the occupancy rate of hotels will increase,  
- the profit of the company will increase  
- investors/shareholders are optimistic about the company's future and will buy its shares  
- the share price will rise
- (c) Rights of a share investor:  
- receive transaction documents, e.g. statements showing the investment transactions  
- receive a dividend if the board of directors has declared a dividend  
- vote in annual general meeting  
(1 mark for each right, max. 2 marks)

7 marks

Rights of a bond investor:

- Get principal when mature
- Get interest



### QUESTION 3

Marks

(a)

Rental expenses			
2021		\$	
Apr 5	Bank	37 000	

  

Sales			
			\$
2021			
Apr 18	Bank		15 000

(b)

Jeffery		
Statement of financial position as at 30 April 2021 (extract)		\$
<u>Current liabilities</u>		
Bank (overdraft)		4 000

- (c) - business entity concept  
 - a business is an entity separate from its owner(s), the private transactions of the owner(s) should not be recorded in the books of the business

6 marks

### PART 2

### QUESTION 4

Marks

(A)

- (a) (i) working capital ratio  

$$= [(\$20\ 000 + \$50\ 000 + \$180\ 000 + \$120\ 000) / (\$30\ 000 + \$100\ 000)] : 1$$

$$= 2.85 : 1$$
- (ii) acid test ratio  

$$= [(\$20\ 000 + \$50\ 000 + \$120\ 000) / (\$30\ 000 + \$100\ 000)] : 1$$

$$= 1.46 : 1$$

- (b) both the working capital ratio and acid test ratio of Chan Kee were higher than the industry average and the working capital ratio was much higher than its acid test ratio

Chan Kee:

- has greater ability to meet short-term obligations/has sufficient short-term assets to repay short-term liabilities
  - has a higher proportion of current assets tied up in inventory
- (1 mark for each comment, max. 2 marks)

(B)

- (c) (i) unity of direction

(ii) Advantages:

- creates coherence among employees to achieve the same objectives effectively
  - avoids conflicts and confusion among departments as all departments are working towards the same goal
  - builds up team spirit, which enhances morale
- (2 marks for each advantage, max. 4 marks)

10 marks



QUESTION 5

(A)  
(a)

Income statement for Mr Wong for the month ended 30 April 2021			Marks
Sales			0.5
Less: Returns inwards			
Less: Cost of goods sold			0.5
Purchases	\$	\$ 103 500	0.5
Less: Closing inventory		1 500	
Gross profit		102 000	
Add: Discounts received			
	80 000		0.5
Less: Expenses	18 000	62 000	0.5
Carriage outwards		40 000	0.5
Sundry expenses		800	0.5
Net profit		40 800	
	1 300		0.5
	23 475	24 775	0.5
		16 025	0.5
			(5)

- (b) Use of income statement:  
- government assesses the tax liability of the firm based on the profits or losses reported 1

(B)

(c)



- (d) (i) human resources manager 1
- (ii) - line authority: to give orders to and direct the work of subordinates in the human resources department 1
- staff authority: to advise and support the marketing manager and production manager in matters related to human resources 1

10 marks

END OF PAPER 1