

香港中學文憑考試

Hong Kong Diploma of Secondary Education Examination

# **Business, Accounting and Financial Studies**

## **2019 Question Papers**

**(with marking schemes and comments on candidates' performance)**



香港考試及評核局  
Hong Kong  
Examinations and  
Assessment Authority

## The Examination

### Objectives

The public assessment aims to assess candidates' abilities to:

1. demonstrate knowledge and understanding of different areas of business;
2. apply such knowledge and understanding to familiar and novel situations;
3. analyse, synthesise and evaluate information in the context of business decisions, taking into account the integrated and dynamic nature of business problems; and
4. communicate facts, opinions, and suggestions in an effective manner.

### Synopsis of curriculum contents

For details, please refer to the Business, Accounting and Financial Studies (BAFS) Curriculum and Assessment Guide (Secondary 4–6) jointly prepared by the Curriculum Development Council and the Hong Kong Examinations and Assessment Authority.

### Mode of Assessment

The following table outlines the various components of the public assessment of BAFS in 2019 HKDSE:

Component		Weighting	Duration
Public Examination	Paper 1 Compulsory part	40%	1 hour 15 minutes
	Paper 2 Elective part (choose one only)	60%	2 hours 15 minutes
	2A Accounting module 2B Business management module		

### Public Examination

#### Paper 1

There will be two sections in this paper: Section A (60 marks) will consist of multiple choice questions and Section B (30 marks) short questions divided into two parts. Candidates are required to answer 3 – 4 compulsory questions in Part 1 (20 marks) and there will be a choice of one out of two questions in Part 2 (10 marks).

Questions will be set on the compulsory part of the curriculum.

#### Paper 2

Candidates will attempt either Paper 2A or 2B.

Questions will be set on the respective module of the elective part of the curriculum. Candidates are, however, expected to integrate their knowledge and skills learnt in the compulsory part to demonstrate in-depth knowledge of the module.



There will be three sections as follows:

	<b>Paper 2A</b> (Accounting module)	<b>Paper 2B</b> (Business management module)	Remarks
Section A (24 marks)	3 – 4 short questions	4 – 5 short questions	All questions are compulsory.
Section B (36 marks)	2 – 3 application problems	2 case studies	
Section C (20 marks)	Case/Theory questions	Essay questions	Candidates are required to answer one out of two questions.

Candidates are expected to be aware of the impact of standards issued by the Hong Kong Institute of Certified Public Accountants upon the accounting definitions and treatments covered by this curriculum. Standards newly issued or revised before *1 September 2016* are applicable to the examination.

## BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

8:30 am – 9:45 am (1 hour 15 minutes)

This paper must be answered in English

### GENERAL INSTRUCTIONS

- (1) There are **TWO** sections, A and B, in this Paper. Section A consists of multiple-choice questions and Section B contains short questions.
- (2) Answer **ALL** questions in Section A. There are two parts in Section B: Answer **ALL** questions in Part 1 and **ONE** of the two questions in Part 2.
- (3) Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the Answer Book. In the Answer Book, start **EACH** question (not part of a question) on a **NEW** page.
- (4) The Answer Sheet for Section A and the 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.

Not to be taken away before the end of the examination session
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## SECTION A (60 marks)

There are 30 questions in this section. Answer **ALL** questions. Choose the best answer for each question.

1. Which of the following is/are difference(s) between a sole proprietorship and a general partnership?

		<u>Sole proprietorship</u>	<u>General partnership</u>
(1)	decision-making process	shorter	longer
(2)	profits tax rate	lower	higher
(3)	liability borne	unlimited	limited
A.	(1) only		
B.	(1) and (2) only		
C.	(2) and (3) only		
D.	(1), (2) and (3)		

2. According to accounting assumptions, principles and conventions, which of the following accounting treatments is correct?

- A. A sole proprietor records his own rental expenses in the books of the firm.  
 B. Mr Chan owns three firms. He keeps separate accounting records for each firm.  
 C. All assets are valued at current market price if a business is expected to cease operating in the following month.  
 D. Once an accounting method has been adopted, the method should not be changed unless the new method leads to a higher profit.

3. Which of the following statements about 'management by objectives' are correct?

- (1) It can enhance staff morale.  
 (2) It can facilitate communication between superiors and subordinates.  
 (3) It allows superiors to focus on more important tasks.  
 A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)

4. The following account was extracted from the books of Lee's firm:

Mr Au					
2018		\$	2018		\$
Oct 14	Cash	22 000	Oct 1	Balance b/d	10 000
Oct 31	Balance c/d	44 000	Oct 5	Purchases	56 000
		<u>66 000</u>			<u>66 000</u>

Based on the information in the above account, which of the following statements is **not** correct?

- A. Lee's firm owed Mr Au \$10 000 on 1 October 2018.  
 B. Mr Au sold goods for \$56 000 on credit to Lee's firm on 5 October 2018.  
 C. Lee's firm received \$22 000 in cash from Mr Au on 14 October 2018.  
 D. The account has a credit balance as at 31 October 2018.

5. Which of the following descriptions about the Hong Kong economy is/are correct?
- (1) a sales tax is imposed on the retailing of goods
  - (2) most of the working population are in the tertiary sector
  - (3) the main destination of exported goods is the Mainland
- A. (1) only  
 B. (2) only  
 C. (1) and (3) only  
 D. (2) and (3) only
6. A firm acquired a set of equipment with a list price of \$200 000. The owner paid \$50 000 by personal cheque and the remaining amount was to be settled later on. Which of the following are the effects of this transaction on the accounting equation?
- |    | <u>Assets</u> | <u>Capital</u> | <u>Liabilities</u> |
|----|---------------|----------------|--------------------|
| A. | increase      | increases      | decrease           |
| B. | increase      | increases      | increase           |
| C. | increase      | decreases      | increase           |
| D. | decrease      | unchanged      | decrease           |
7. A company is going to launch a new product in the market. Its Finance Manager is responsible for \_\_\_\_\_.
- (1) setting the price of the new product
  - (2) seeking funds to launch the new product
  - (3) preparing budgets for the new product
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)
8. Paul has taken out a 3-year personal loan of \$100 000 at an annual interest rate of 12%, compounded monthly. Which of the following statements is/are correct?
- (1) The annual nominal interest rate of the loan is 12%.
  - (2) The annual effective interest rate of the loan is higher than 12%.
  - (3) In general, the interest rate for a personal loan is lower than that for a credit card.
- A. (1) only  
 B. (1) and (2) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)
9. Which of the following statements about business ethics is/are correct?
- (1) Business actions that are legally acceptable may be unethical.
  - (2) A 'code of ethics' is compiled by the government for businesses.
  - (3) Business ethics are a set of clearly-defined moral principles and standards that a business should follow.
- A. (1) only  
 B. (2) only  
 C. (1) and (3) only  
 D. (2) and (3) only

10. On 31 December 2018, the quick ratio of a firm was 0.8:1. On that date, the account balances of the firm were as follows:

	\$
Inventory	6 000
Bank loan (repayable in April 2019)	10 000
Cash	30 000
Trade payables	50 000

Based on the above information, calculate the amount of trade receivables as at 31 December 2018.

- A. \$4 000  
B. \$10 000  
C. \$12 000  
D. \$18 000
11. Which of the following statements about joint ventures is/are correct?
- (1) The business risk is shared by the joint venture partners.  
(2) The joint venture will normally be dissolved when the joint project is completed.  
(3) A joint venture is a new business entity formed by at least two businesses.
- A. (1) only  
B. (1) and (2) only  
C. (2) and (3) only  
D. (1), (2) and (3)
12. Which of the following will decrease the total amount of current liabilities of a business?
- (1) some unpaid goods are returned to the supplier  
(2) trade payables are repaid using a bank overdraft facility  
(3) a 6-month loan is repaid by taking out a 3-year bank loan
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
13. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong is/are correct?
- (1) The number of employees accounts for around 80% of total employment (excluding civil service) in Hong Kong.  
(2) They can operate as a limited company.  
(3) The annual sales revenue of a SME must be below \$5 million.
- A. (1) only  
B. (2) only  
C. (1) and (3) only  
D. (2) and (3) only
14. For a sole proprietorship selling office equipment, which of the following about its statement of financial position is correct?
- A. Office equipment held for sale should be classified as a current asset.  
B. The statement shows details of the transactions made during the year.  
C. The statement shows the balances of the nominal accounts and real accounts of the firm.  
D. Working capital is the difference between non-current assets and non-current liabilities.

15. Which of the following statements about the basic requirements for new applicants of listing on the Main Board is/are correct?

- (1) Applicants must fulfil the requirement in operating history.
- (2) Applicants must be multinational corporations.
- (3) Applicants must meet one of the following criteria: the profit test, the market capitalisation/revenue test, or the market capitalisation/revenue/cash flow test.

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

16. A firm was set up in January 2018. The following account balances were extracted from its books as at 31 December 2018:

	\$
Sales	154 000
Purchases	51 000
Carriage outwards	2 500
Carriage inwards	4 700
Salaries	31 000

The inventory as at 31 December 2018 amounted to \$7 200. The gross profit for the year ended 31 December 2018 was \_\_\_\_\_.

- A. \$72 000
- B. \$105 500
- C. \$107 700
- D. \$114 900

17. Which of the following is/are regarded as example(s) of a hotel fulfilling its social responsibilities?

- (1) allowing clerical staff to work from home when there are adverse weather conditions
- (2) paying the minimum wage to housekeepers
- (3) serving sharks fins if requested by customers

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

18. Tracy, aged 35, set up a dessert shop as a sole proprietor in 2015. Since then, she has employed Betty, aged 30, as a part-time helper at a monthly salary of \$5 000. Which of the following statements about the Mandatory Provident Fund (MPF) Scheme is/are correct?

- (1) Tracy needs to enrol herself into an MPF scheme.
- (2) Tracy needs to enrol Betty into an MPF scheme and make mandatory contributions for her.
- (3) Betty needs to make mandatory contributions to the MPF Scheme.

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

19. Which of the following double entries are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Credit customers returned goods to the firm.	Sales	Trade receivables
(2)	A bank loan was settled by cheque.	Loan from bank	Cash at bank
(3)	A cash refund for the overpayment of motor expenses was received.	Cash	Motor expenses
A.	(1) and (2) only		
B.	(1) and (3) only		
C.	(2) and (3) only		
D.	(1), (2) and (3)		

20. Which of the following statements about the risks and returns of investments is/are correct?

- (1) Investing in stocks of companies from different industries can diversify firm-specific risk.
  - (2) Making a deposit into a savings account is risk free.
  - (3) Investors can get capital gains and dividends as returns for investing in bonds.
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

21. Which of the following statements about entrepreneurs are correct?

- (1) They are willing to take on challenges.
  - (2) They promote economic growth by creating job opportunities.
  - (3) They promote market competition by introducing new products and services.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

22. Which of the following statements about the World Trade Organization are correct?

- (1) It settles trade disputes among members.
  - (2) It provides forums for trade negotiations among members.
  - (3) It provides financial assistance to developing countries for trade development.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

23. In the accounting cycle, the next step after posting entries to the ledger accounts is \_\_\_\_\_.

- A. preparing financial statements
- B. recording transactions in the books of original entries
- C. preparing the trial balance
- D. making period-end adjustments



24. Which of the following statements about the Hang Seng Index is correct?
- A. It is composed of 60 constituent stocks.
  - B. All of its constituent stocks are listed on the Main Board of the Stock Exchange of Hong Kong.
  - C. It reflects the performance of the stock market in the Asia-Pacific region.
  - D. 'Information technology' is one of the four sub-indexes.

25. Which of the following is not the main use of financial statements for the respective users?

<u>User</u>	<u>Main use</u>
A. employees	to assess the prospects of the company
B. managers	to evaluate the financial performance of the company
C. government	to compute the profits tax payable by the company
D. customers	to assess the liquidity of the company

26. Which of the following statements about credit cards are correct?

- (1) They have a pre-approved credit limit.
- (2) They have a payment due date.
- (3) There is a monthly minimum payment for the outstanding balance.

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

27. A manager compares the actual performance of the staff with the performance standard. Which of the following management functions does the task belong to?

- A. leading
- B. organising
- C. planning
- D. controlling

28. The following is a list of the account balances in the trial balance of a firm as at 31 December 2018:

	\$
Purchases	74 000
Inventory, 1 January 2018	6 200
Cash at bank	121 500
Loan from bank	36 700
Office equipment	15 000
Sales	123 000
Operating expenses	28 000
Drawings	14 700
Capital, 1 January 2018	?

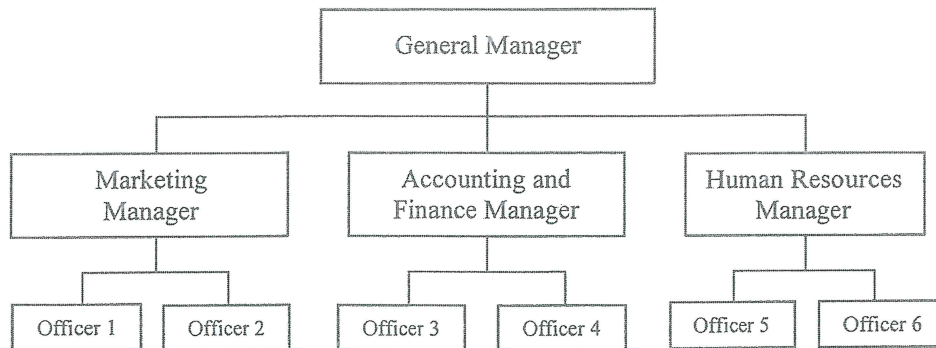
The firm's capital as at 1 January 2018 was \_\_\_\_\_.

- A. \$43 700
- B. \$70 300
- C. \$99 700
- D. \$197 700



29. On 1 April 2019, Yan deposited \$3 000 into a savings plan with an interest rate of 1% per year, compounded annually. If Yan deposits the same amount into the savings plan on 1 April every year, what is the account balance of Yan's savings plan as at 31 March 2022?
- A. \$3 091  
B. \$9 090  
C. \$9 181  
D. \$9 273

30. The organisation chart of a company is as follows:



Which of the following statements are correct?

- (1) The company is departmentalised by function.  
(2) The span of control of the General Manager is nine.  
(3) The General Manager has line authority over the Marketing Manager.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

END OF SECTION A

**SECTION B (30 marks)**

**Part 1 (20 marks)** Answer ALL questions in this part.

1. Pizza Deli is a multinational corporation founded in Italy and has branches in London and Sydney. It is considering expanding to Asia by setting up its own branch in Hong Kong. A reputable restaurant chain in Hong Kong invited Pizza Deli to join them as a franchisee.

- (a) Describe the main feature of Pizza Deli as a multinational corporation. (2 marks)
- (b) Explain to Pizza Deli two disadvantages of joining the restaurant chain as a franchisee instead of setting up its own branch. (4 marks)

2. (a) Johnny has just graduated from university. His teacher reminded him to maintain a good personal credit record.

Give two factors which could affect Johnny's personal credit record. Explain how each of the factors would affect his personal credit record. (4 marks)

- (b) In 2019, Johnny established a firm selling cooking utensils in Hong Kong, with the following goal:

‘All Hong Kong people will know our brand name by the end of 2020.’

The above goal is not a SMART goal. Explain two SMART goal characteristics that are not demonstrated by this goal. (4 marks)

3. On 1 December 2018, Chung's firm purchased goods for \$5 000 by cheque.

On 22 December 2018, Chung's firm sold goods to a new customer, Jacky, on credit for \$8 000. A 5% discount would be offered to customers if the settlements were made within 10 days after purchase. Jacky settled the account by cheque on 30 December 2018.

With reference to the accounts listed below,

- Purchases account
- Sales account
- Jacky account
- Cash at bank account
- Discounts received account
- Discounts allowed account

- (a) prepare appropriate T-accounts to record the above transactions for Chung's firm. Balancing off the accounts is not required. (4 marks)

- (b) give one example for each of the following types of ledger account:

(i) real account

(ii) nominal account

(2 marks)

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

Au's firm manufactures and sells garments. The following account balances were extracted from the books of Au's firm as at 31 December 2018:

	\$
Sales	2 300 000
Inventory, 31 December 2018	100 000
Gross profit for the year	1 495 000
Net profit for the year	345 000
Capital, 1 January 2018	1 827 500
Machinery	2 182 500
Cash at bank	140 000
Trade payables	250 000

In 2017, the return on capital employed and the current ratio of Au's firm were 25% and 1.4:1 respectively. In 2018, additional capital was not introduced and there were no drawings.

Refer to the information above, answer Question 4 or Question 5.

4. (a) Calculate the following ratios for 2018 for Au's firm (to two decimal places):
- (i) gross profit ratio (1 mark)
  - (ii) net profit ratio (1 mark)
  - (iii) return on capital employed (2 marks)
- (b) Based on the return on capital employed, briefly comment on the profitability of Au's firm in 2018. (1 mark)

In the production department of Au's firm, the garment manufacturing process involves many tasks, including cutting, sewing and packaging. Each worker is responsible for one task only.

- (c) State the principle of effective management adopted in the production department. (1 mark)
  - (d) Explain two advantages for the production department of adopting the principle of effective management in (c) above. (4 marks)
- (Total: 10 marks)
5. (a) Prepare a statement of financial position for Au's firm as at 31 December 2018. (3 marks)
- (b) Based on the current ratio (to two decimal places), briefly comment on the liquidity of Au's firm as at 31 December 2018. (2 marks)

Ken is the accountant at Au's firm. One day, he asked an accounting clerk, Ming, to prepare a cost analysis and report to him in the afternoon. At the same time, the office manager instructed Ming to compile a filing index in that afternoon.

- (c) State the principle of effective management violated in the above case. (1 mark)
  - (d) If the principle of effective management in (c) above was adopted, explain two advantages for Au's firm. (4 marks)
- (Total: 10 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.

### 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., and 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, and 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.	A (76%)	16.	B (77%)
2.	B (73%)	17.	A (55%)
3.	A (68%)	18.	B (51%)
4.	C (52%)	19.	C (67%)
5.	D (67%)	20.	A (70%)
6.	B (64%)	21.	D (70%)
7.	C (67%)	22.	A (54%)
8.	D (38%)	23.	C (71%)
9.	A (48%)	24.	B (62%)
10.	D (55%)	25.	D (60%)
11.	D (75%)	26.	D (50%)
12.	B (72%)	27.	D (74%)
13.	B (74%)	28.	C (70%)
14.	A (58%)	29.	C (61%)
15.	C (65%)	30.	B (68%)

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

## SECTION B PART 1

### QUESTION 1

Marks

- (a)
- operates in more than one country 1
  - Pizza Deli operates in Italy, London and Sydney respectively 1
- (b) Disadvantages: 4
- limited autonomy: e.g. need to follow the standards and guidelines stipulated in the franchise agreement
  - need to pay royalties to the franchisor even when making a loss
  - subject to the success and failure/reputation of the franchisor
- (2 marks for each relevant disadvantage, max. 4 marks)

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6 marks

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### QUESTION 2

Marks

- (a) Factors: 4
- repayment history/delinquency record: e.g. if Johnny had repaid past loans on time, his personal credit record would be better
  - record of bankruptcy: e.g. if Johnny had been bankrupt at an earlier time, his personal credit record would be worse
  - credit history: e.g. if Johnny had applied for credit successfully in the past and his usage of credit was appropriate, his personal credit record would be better
  - financial situations: e.g. if Johnny's current outstanding debt amount is low, his personal credit record would be better
- (2 marks for each relevant factor, max. 4 marks)
- (b) Characteristics: 4
- specific: e.g. does not define 'all Hong Kong people' and 'know' clearly
  - measurable: e.g. the goal is vague and not expressed in numerical form; there is no means to measure whether 'all Hong Kong people' know the brand name
  - realistic/attainable: the goal may not be achievable
- (2 marks for each relevant characteristic, max. 4 marks)

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8 marks

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### QUESTION 3

Marks

(a)

Purchases						
2018			\$			
0.5	Dec 1	Cash at bank	5 000			
Cash at bank						
2018			\$	2018		\$
0.5	Dec 30	Jacky	7 600	Dec 1	Purchases	5 000
						0.5
Sales						
				2018		\$
				Dec 22	Jacky	8 000
						0.5
Jacky						
2018			\$	2018		\$
0.5	Dec 22	Sales	8 000	Dec 30	Cash at bank	7 600
				Dec 30	Discounts allowed	400
						0.5
Discounts allowed						
2018			\$			\$
0.5	Dec 30	Jacky	400			

(4)

- (b) (i) Real account: Jacky account, Cash at bank account
- (ii) Nominal account: Purchases account, Sales account, Discounts received account, Discounts allowed account
- (1 mark for each example, max. 2 marks)

6 marks

### PART 2

### QUESTION 4

Marks

- (a) (i) Gross profit ratio =  $\$1\,495\,000 / \$2\,300\,000 \times 100\% = 65.00\%$  1
- (ii) Net profit ratio =  $\$345\,000 / \$2\,300\,000 \times 100\% = 15.00\%$  1
- (iii) Capital as at 31 December 2018 =  $\$1\,827\,500 + \$345\,000 = \$2\,172\,500$  2  
Average capital =  $(\$1\,827\,500 + \$2\,172\,500) / 2 = \$2\,000\,000$   
Return on capital employed =  $\$345\,000 / \$2\,000\,000 = 17.25\%$
- (b) As compared with 2017, Au's firm was relatively less efficient in using its owners' capital to generate profits in 2018. 1
- (c) Division of work 1
- (d) Advantages: 4  
– higher productivity and efficiency/practice makes perfect  
– facilitates automation: e.g. use of machines and equipment  
– time-saving: e.g. simplified training, saves time in switching from task to task  
(2 marks for each relevant advantage, max. 4 marks)

10 marks



QUESTION 5

Marks

(a)

Au's firm Statement of financial position as at 31 December 2018			
	\$	\$	
<b>Non-current assets</b>			
Machinery		2 182 500	0.5
<b>Current assets</b>			
Inventory	100 000		0.5
Cash at bank	140 000		0.5
	240 000		
<b>Less: Current liabilities</b>			
Trade payables	250 000	(10 000)	0.5
		<u>2 172 500</u>	
<b>Financed by</b>			
Capital, as at 1 January 2018		1 827 500	0.5
Add: Net profit		345 000	0.5
		<u>2 172 500</u>	(3)

(b) Current ratio = \$240 000/\$250 000 = 0.96 : 1 1

Comments:

- the current ratio is lower than 1:1; the firm may have difficulty in repaying its short-term debts 1
- as compared with 2017, the liquidity of the firm was poorer due to its lower current ratio

(1 mark for each relevant comment, max. 1 mark)

(c) Unity of command 1

(d) Advantages:

- avoid conflicting instructions causing confusion to subordinates: e.g. avoid work assignments being given by different managers 4
- facilitate supervision of subordinates: e.g. clearly define lines of authority, responsibility and accountability to avoid conflicts between managers

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

10 marks

END OF PAPER 1