

The Accounting Case Competition for Secondary Schools and Tertiary Institutes

2005

Tertiary Institutes Group

Time allowed – 2 hours

Answer ALL the questions

| | <i>Marks</i> |
|------------|--------------|
| Question 1 | 50 |
| Question 2 | 30 |
| Question 3 | <u>20</u> |
| | <u>100</u> |

**DO NOT OPEN THIS PAPER UNTIL
INSTRUCTED TO DO SO BY THE SUPERVISOR**

ALL questions in this paper are compulsory and MUST be answered. They are worth a total of 100 marks.

In answering the questions, you should refer to the Annual Report, and quote references from the Annual Report with their page numbers as far as possible. Figures should be given to one decimal place.

Question 1 – Interpretation of financial statements (50%)

- (a) (i) Which industries widely use EBITDA as a measure of performance? Why? **(3 marks)**

- (ii) The following figures are extracted from the Bossini annual reports:

| | 2002/03 | 2001/02 | 2000/01 |
|--------------|----------|----------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Depreciation | 60,125 | 56,181 | 51,491 |
| Amortisation | 0 | 4,291 | 4,291 |

Estimate the EBITDA of Bossini in these three years and comment on the group's performance by reference to EBITDA from 2000/01 to 2004/05.

(7 marks)

- (b) (i) Academic textbooks simplify reality by stating the following formula for inventory turnover (days):

$$\frac{\text{Average inventory}}{\text{Cost of sales}} \times 365 \text{ days}$$

[i.e. (opening inventory + closing inventory) ÷ 2]

However, in reality, most trading companies, like Bossini, sell multiple products. How do these companies derive the figure for inventory turnover (days)?

(3 marks)

- (ii) What is the purpose of the cash flow statement? What does each section of cash flow statement attempt to measure?

(6 marks)

- (iii) By reference to the cash flow statement, comment on Bossini's cash management for the year ended 31 March 2005.

(6 marks)

(iv) The following information is extracted from Bossini's annual report:

| | As at 31 March 2005 | As at 31 March 2004 |
|---------------------------------------|---------------------|---------------------|
| Inventory turnover (days) | 39 days | 37 days |
| Return on equity (%) | 36% | 33% |
| Current ratio (times) | 2.5 | 2.7 |
| Cash and bank balances* (in HK\$ m) | 326 | 225 |
| Total liabilities to equity ratio (%) | 47% | 43% |
| Capital expenditure (in HK\$ m) | 50 | 34 |

*Cash and bank balances less bank loans

Based on the above key financial indicators **and other relevant information contained in the annual report**, you are required to comment on the following for the year ended 31 March 2005:

- (a) profit performance;
- (b) short-term liquidity and working capital management;
- (c) capital structure; and
- (d) capital expenditure.

(25 marks)

(Total 50 marks)

Question 2 – Technical (30%)

(a) (i) Ernst & Young, the auditor of Bossini, was of the opinion that the financial statements of the group for the year ended 31 March 2005 gave a true and fair view. What does this statement (i.e. financial statements gave a true and fair view) imply?

(6 marks)

(ii) Apart from having an external auditor (i.e. Ernst & Young), Bossini has had an internal audit department since 2002. You are required to distinguish the scope of work, the aims and responsibilities of external auditors and internal auditors.

(7 marks)

(b) (i) Bossini operated a share option scheme for the purpose of motivating and providing incentives to its employees. This benefit received by the employee should be chargeable to tax. Explain the rules in determining the amount of benefits assessable to salaries tax.

(5 marks)

(ii) Mr Chan is an employee of ABC Company. As part of its incentive scheme, ABC Company gave Mr Chan the opportunity to buy 5,000 shares in Brave Company at \$25 each. On 1 June 2005, Mr Chan paid \$3,000 for the option. Mr Chan exercised the option on 1 September 2005 and sold all the shares on 1 December 2005. The market value of the shares on the various dates were:

| | |
|------------------|------|
| 1 June 2005 | \$30 |
| 1 September 2005 | \$29 |
| 1 December 2005 | \$31 |

Compute the income assessable to salaries tax for Mr Chan.

(5 marks)

(c) Bossini is a learning organisation. What do you understand by the term “learning organisation”? Explain why Bossni wants itself to be a learning organisation.

(7 marks)

(Total 30 marks)

Question 3 – Strategies (20%)

Bossini is investigating market development opportunities in India, Korea, and Japan. Assuming that you are the marketing manager of Bossini, you are required to:

- (a) make a SWOT analysis for the India market; and
- (b) recommend, with brief reasons, which of the following strategies the group should take in entering the Korea market:
 - (i) through opening retail shops; or
 - (ii) through franchise partners.

(20 marks)

* * END OF PAPER * *

(QUESTIONS)

* * *