



Hong Kong Institute of
Certified Public Accountants
香港會計師公會



Qualification Programme

Associate Module 7 Financial Management

Pilot Examination Paper

Time Allowed	2 hours 30 minutes
Examination Assessment Allocation	
Objective Type / Task-based Questions	100 Marks All questions are compulsory

This pilot examination paper simulates a typical examination paper that assesses candidates' core foundational technical knowledge of the subject matters, and their skills in applying the knowledge to tackle routine professional problems, including computations. Mark(s) for each question is set in accordance with its level of difficulty.

The sample questions in this paper are to help candidates familiarise themselves with the form and style of questions which they may see in the Module 7 examination. The sample questions and answers are for reference only, and the content may not have been updated to reflect any changes in relevant standards or legislation.

You should answer **all questions** in this paper and allocate approximately 1.5 minutes for each mark.



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SECTION A – OBJECTIVE TYPE QUESTIONS (Total 41 marks)

Answer **ALL** questions in this section. Together they are worth 41% of the total marks for this examination. Answers must be written in full; short forms and abbreviations may not be awarded marks.

- 1** Assume the returns on Stock HD were positive in January, March, May, June, July and November. The other months the returns on Stock HD were negative. The returns on Stock LD were positive in January, February, May, July, September, November and December, and negative in the remaining months.

Analyse which one of the following correlation coefficients best describes the relationship between Stock HD and Stock LD.

(2 marks)

- ☐ A. -1.0
☐ B. -0.5
☐ C. 0.0
☐ D. 1.0

- 2** Slow Growth Company is currently paying an annual dividend of HK\$2.50 per share. The company is experiencing financial recession and going to downsize its outdated operations. The company is decreasing its dividend by 3% annually.

Determine what is the current value of this stock at a discount rate of 9.5%.

(2 marks)

- ☐ A. HK\$19.12
☐ B. HK\$19.40
☐ C. HK\$20.23
☐ D. HK\$20.67

- 3** Determine which of the following statement(s) is/are correct in relation to the Du Pont system.

(1) It analyses the reasons why a firm's return on equity is satisfactory or unsatisfactory.

(2) It analyses the operating efficiency of a firm.

(3) It analyses the asset use efficiency of a firm.

(4) It analyses the rate of return on a firm's assets.

(2 marks)

- ☐ A. (1) and (3) only.
☐ B. (2) and (4) only.
☐ C. (1), (2), and (3) only.
☐ D. All of the above

- 4** Beauty Boutique has a total asset turnover rate of 1.25, an equity multiplier of 1.42, a profit margin of 5%, a retention ratio of 0.8, and total assets of HK\$124,500.

Determine the company's sustainable growth rate.

(2 marks)

- ☐ A. 5.85%
☐ B. 6.27%
☐ C. 7.64%
☐ D. 7.10%

5 Playful Toys Company Limited has a new toy car model for the upcoming Christmas holiday. The selling price of the toy car will be set at HK\$180, and the company intends to earn a target operating income of 15% of sales. Calculate the target cost per unit for the new toy car.

(2 marks)

- ☐ A. HK\$176
- ☐ B. HK\$184
- ☐ C. HK\$164
- ☐ D. HK\$153

6 Determine which of the following statements is correct.

(2 marks)

- ☐ A. Bonds with longer maturity are subject to less interest rate risk than bonds with shorter maturity.
- ☐ B. Zero coupon bonds are subject to more interest rate risk as compared with coupon-bearing bonds with the same maturity.
- ☐ C. Bonds with higher coupon rate are subject to more interest rate risk than those with lower coupon rate.
- ☐ D. If interest rates raise, bond prices will decrease, and the falling prices will be more significant for bonds with less interest rate risk.

7 Company D and Company E are both profitable, and they have the same total assets, sales revenue, return on assets, and profit margin. However, Company D uses more debt finance for its business operations.

Determine which of the following statements is correct.

(2 marks)

- ☐ A. Company E has a greater total assets turnover than Company D.
- ☐ B. Company E has more operating profits than Company D.
- ☐ C. Company E has lower fixed assets turnover than Company D.
- ☐ D. Company E has a lesser return on equity than Company D.

8 Determine which of the following will occur if the required rate of return equals the internal rate of return.

(2 marks)

- ☐ A. The net present value will be larger than zero.
- ☐ B. The profitability index will equal 1.0.
- ☐ C. The profitability index will equal zero.
- ☐ D. The average accounting return will equal zero.

9 Speedy Delivery requires an accounting rate of return ("ARR") of at least 18% on all non-current asset acquisitions. The company is now considering purchasing some new delivery trucks costing HK\$158,000. These delivery trucks are estimated to have a four-year economic useful life and will be depreciated on a straight line basis to a zero residual value. The forecasted annual net incomes generated from those delivery trucks are HK\$8,500, HK\$12,300, HK\$18,900, and HK\$16,200 for the four coming years.

Justify whether Speedy Delivery should go ahead with the acquisition based on the capital budgeting appraisal technique of the accounting rate of return.

(2 marks)

- ☐ A. Yes; because the ARR is less than 18%.
- ☐ B. Yes; because the ARR is greater than 18%.
- ☐ C. No; because the ARR is equal to 18%.
- ☐ D. No; because the ARR is less than 18%.

10 Determine which of the following statements is correct in relation to price-earnings ("P/E") ratio.

(2 marks)

- ☐ A. High P/E ratio implies that general market participants expect a company to have promising growth prospects.
- ☐ B. The higher the earnings per share ("EPS"), the higher the P/E ratio.
- ☐ C. A company's choice of accounting methods will not impact on its P/E ratio.
- ☐ D. A P/E ratio of 22 means investors are willing to pay HK\$1 for every HK\$22 of profits currently generated by a company.

11 Economic Value Added (EVA®) is a specific form of Residual Income (RI), with adjustments to correct accounting numbers distortion, that measure a firm's economic profit rather than accounting profit in a given year.

Compare and contrast EVA® with RI. Match the appropriate descriptions to each financial performance measure.

(5 marks)

- | | | |
|-------|--|--|
| (i) | It is an absolute performance measure that does not allow a clear comparison of performance between divisions. | |
| (ii) | It involves less sophisticated computation. | |
| (iii) | It is more useful to shareholders as it allows real cost comparisons. | |
| (iv) | It takes tax concerns into consideration when calculating income and cost of capital. | |
| (v) | It is more directly relevant to the objective of maximising owners' wealth, and in return, should enable goal congruence between the divisional and corporate goals to be achieved in a more efficient manner. | |

Available items:

EVA®

RI

EVA® and RI

12 All companies face risk; risk and reward are correlated. Too much risk can lead to business failure. In particular, companies operating in the investment industry rely heavily on risk management to bear market crashes.

Justify why effective risk management can add value to any organization.

Select all correct answers.

(2 marks)

- ☐ A. It protects an organisation's capital structure and profit generating ability without hindering growth.
- ☐ B. Investors are more willing to invest in corporates.
- ☐ C. The organisation can easier access to funding with lower borrowing costs.
- ☐ D. The organisation can improve financial performance.

13 Outline any three financial risk management approaches to address risk.

(3 marks)

Risk

Risk

Risk

14 Your friend, Peter, is using fundamental analysis to make investment decisions.

Determine which form of the Efficient Market Hypothesis ("EMH") is being adopted by your friend, Peter.

(2 marks)

- ☐ A. Weak-form efficiency
- ☐ B. Semi strong-form efficiency
- ☐ C. Strong-form efficiency
- ☐ D. None of above

15 Describe how each form of EMH predicts the future share price forecast to beat the market.

Match the appropriate description to each EMH.

(3 marks)

- (i) Technical analysis is of no use, and the efforts of technical analysts are of no benefit to investors to beat the market.
- (ii) The current stock price reflects all information, public as well as private, and investors will not be able to earn excess returns to beat the market as a result.
- (iii) Fundamental analysis using publicly available information is of no benefit, and most of the financial analysts and mutual fund managers are not providing any value to beat the market.

Available items:

Weak-form efficiency

Semi strong-form efficiency

Strong-form efficiency

16 Determine the form of EMH for the Hong Kong Stock Exchange.

(2 marks)

- ☐ A. Weak-form efficiency
- ☐ B. Semi strong-form efficiency
- ☐ C. Strong-form efficiency
- ☐ D. All of the above

17 Determine which of the following best describes the recommended approach to determining a pricing strategy.

(2 marks)

- ☐ A. It should be carried out independently without considering other business factors.
- ☐ B. It should be based solely on competitors' pricing.
- ☐ C. It should be carried out in relation to the general business objectives and linked to the company's marketing and sales plans.
- ☐ D. It should focus exclusively on maximizing short-term profits.

18 Determine which of the following are common pricing objectives.

Select all correct answers.

(2 marks)

- ☐ A. Increasing sales volume, sales revenue, or market share
- ☐ B. Achieving a specific rate of return on sales or investment
- ☐ C. Achieving or maintaining price leadership
- ☐ D. Matching competitors' prices or gaining a competitive advantage
- ☐ E. Enhancing the image of the business, product, or service
- ☐ F. Surviving in a challenging market place
- ☐ G. Maximizing employee satisfaction regardless of profitability
- ☐ H. Setting prices to ensure all customers can afford the product

* * * END OF SECTION A * * *

SECTION B –TASK-BASED QUESTIONS (Total: 59 marks)

Answer **ALL** questions in this section. Together they are worth 59% of the total marks for this examination. Answers must be written in full; short forms and abbreviations may not be awarded marks.

19 When Smart Investments Company Limited ("Smart Investments") formed three divisions a year ago, the President informed the division managers that an annual bonus would be rewarded to the most profitable division, assessed by either the return on investment ("ROI") or residual income ("RI") of the division.

All the assets are long-lived operating assets that were acquired 15 years ago and have 15 years of useful life remaining with zero terminal disposal value. Smart Investments' minimum required rate of return used for determining RI is 15%.

Budgeted operating performance for 2019 for each of the three investment divisions are as follows:

Divisions	Operating Income (HK\$)	Operating Assets (HK\$)
A - Stocks & Bonds	15,000,000	100,000,000
B - Derivatives	25,000,000	125,000,000
C - Real Properties	11,000,000	50,000,000

Smart Investments is considering a new renovation project to modernise aging facilities of the corporate by purchasing new sets of equipment for each of the three investment divisions. The new equipment is expected to cost HK\$25,000,000 for each Division, which supports the corporate strategy of competing on the basis of quality service and customer response timing. The new investment is also expected to increase the operating income of each Division by HK\$4,500,000 next year, which is an acceptable return on investment from the standpoint of the corporate management.

(a) Determine the current ROI and RI for each division.

(3 marks)

Current ROI (Input your answers in decimal form, round to two decimal places.)

Division A =

Division B =

Division C =

Current RI (Round your answers to the nearest dollar.)

Division A = HK\$

Division B = HK\$

Division C = HK\$

(b) Construct new divisional ROI and RI after incorporating the renovation project for each division.

(3 marks)

New ROI (Input your answers in decimal form, round to two decimal places.)

Division A =

Division B =

Division C =

New RI (Round your answers to the nearest dollar.)

Division A = HK\$

Division B = HK\$

Division C = HK\$

(c) Assuming the Division Managers are assessed by RI, determine which Division(s) is/ are pleased with the new project.

Select all correct answers.

(2 marks)

- ☐ A. Division A
- ☐ B. Division B
- ☐ C. Division C
- ☐ D. None of the above

(d) Determine why RI is considered a more appropriate measure than ROI for evaluating investment projects.

Select all correct answers.

(2 marks)

- ☐ A. RI prompts managers to accept projects with higher rates of return than the cost of invested capital.
- ☐ B. RI is based largely on individual judgment.
- ☐ C. Using ROI, divisional managers may reject new investments that could decrease their existing ROI.
- ☐ D. RI may be more accurate when applied in larger divisions.

20 As one of the active social media platform users nowadays, you are interested in learning some of the basic company's backgrounds of the two famous internet platform investment stocks, WeTalk and FacePage. You found that over 900 million people are using WeTalk, the free messaging & calling app that allows connecting with family & friends across countries boundlessly. It's an all-in-one communications app for free text (SMS/MMS), voice & video calls, moments, photo sharing, games and more. On the other hand, FacePage is a social networking platform where users can post comments, share photographs and links to news or other interesting content on the Web, play games, chat live, and even stream live video.

You are going to apply your finance knowledge in the real investment world by assessing the risk and return of the two internet platform stocks, WeTalk and FacePage with the following information:

State of Economy	Probability of State of Economy	Rate of return if state occurs	
		WeTalk	FacePage
Recession	20%	5%	-13%
Booming	50%	19%	22%
Normal	30%	16%	15%

The expected return on the market is 13%, and the rate of return on U.S. Treasury Bill is currently yielding 3%.

(a) Compute the expected returns and beta coefficients of each individual stock, WeTalk and FacePage, respectively. (Input your answers in decimal form, round to two decimal places.)

(6 marks)

Expected return of WeTalk =

Expected return of FacePage =

Beta coefficient of WeTalk =

Beta coefficient of FacePage =

(b) Based on the answers in part (a), calculate the total risk for both WeTalk and FacePage. (Input your answers in decimal form, round to two decimal places.)

(4 marks)

Total risk of WeTalk =

Total risk of FacePage =

(c) Based on the results in parts (a) and (b), analyse which stock, WeTalk or FacePage, is riskier and thus, should have a higher risk premium and greater expected return.

Stock FacePage has more total risk than WeTalk.

(1 mark)

- ☐ A. True
☐ B. False

(d) Stock FacePage has more systematic risk than WeTalk.

(1 mark)

- ☐ A. True
☐ B. False

(e) Stock FacePage has more unsystematic risk than WeTalk.

(1 mark)

- ☐ A. True
☐ B. False

(f) Since systematic risk can be diversified, WeTalk is actually the riskier stock and should have a higher risk premium and a greater expected return.

(1 mark)

- ☐ A. True
☐ B. False

21 HighTek Company ("HighTek") is a renowned manufacturer and distributor of electronic devices for mobile phones. Thanks to some successful new products marketed to manufacturers of 5G mobile phones, HighTek has recently been experiencing a period of explosive growth with its sales revenues more than doubling over the last two years. However, this growth has been coupled with a significant decline in profitability and a sharp plunge in HighTek's share price.

Rosanna, a financial consultant, is approached to analyse HighTek's financial performance and find out the reasons behind the situation before advising any remedial actions. The investigative plan involves conducting a series of in-depth interviews with the company's management team and performing some independent research on the industry's average performance. After determining the key ratios for the past three years, Rosanna starts by analysing trends in each ratio and compares each of them with the industry players as shown below:

Ratio Analysis of the HighTek Company				
	Industry Average	20X1	20X2	20X3
Current Ratio	4.6	4.1	4.6	5.3
Quick Ratio	3.2	2.9	3.8	4.0
Average Collection Period	42 days	40 days	60 days	68 days
Inventory Turnover	7.5X	7.0X	6.0X	5.0X
Fixed Asset Turnover	1.6X	1.7X	1.6X	2.1X
Total Asset Turnover	1.2X	1.3X	1.5X	1.6X
Debt Ratio	53%	56%	66%	75%
Debt to Equity Ratio	1:1	1.1:1	1.8:1	2.1:1
Times Interest Earned	4.5X	5.5X	3.3X	1.8X
Return on Assets (ROA)	10.8%	15.0%	7.1%	3.0%
Return on Equity (ROE)	23.3%	33.5%	21.9%	12.0%
Equity Multiplier	2.1	2.3	2.9	3.3

You are Rosanna Lee, the financial consultant. From the available financial information, analyse the financial performance and justify messages or reasons behind the following aspects of the HighTek Company with reference to the industry average over the past three years in a memorandum format addressed to the company.

(a) Determine which of the following ratios measure a company's liquidity.

Select all correct answers.

(2 marks)

- ☐ A. Current Ratio
- ☐ B. Quick Ratio
- ☐ C. Average Collection Period
- ☐ D. Inventory Turnover
- ☐ E. Fixed Asset Turnover
- ☐ F. Total Asset Turnover

(b) Determine which of the following ratios measure a company's debt management and long-term solvency.

Select all correct answers.

(2 marks)

- ☐ A. Total Asset Turnover
- ☐ B. Debt Ratio
- ☐ C. Debt to Equity Ratio
- ☐ D. Times Interest Earned
- ☐ E. Return on Assets
- ☐ F. Return on Equity

(c) Determine the liquidity situation of the company.

Select the correct answer to the following questions.

The liquidity situation of the company appears to be healthy.

(1 mark)

- ☐ A. True
- ☐ B. False

(d) This is evidenced by the decreasing current and quick ratios over the past period.

(1 mark)

- ☐ A. True
- ☐ B. False

(e) Determine which of the following ratios measure a company's ability to generate profits.

Select all correct answers.

(2 marks)

- ☐ A. Return on Assets
- ☐ B. Return on Equity
- ☐ C. Current Ratio
- ☐ D. Inventory Turnover
- ☐ E. Fixed Asset Turnover

(f) Identify which of the following statements correctly explain the current asset management situation of the company.

(2 marks)

- ☐ A. The average collection period of the trade receivables of the company is lengthening dramatically. This is a good signal indicating that the company is probably selling to a group of good credit-worthiness rated customers on credit.
- ☐ B. The average collection period of the trade receivables of the company is shortening dramatically. This is a bad signal indicating that the company is probably selling to a group of poor credit-worthiness rated customers on credit.
- ☐ C. Total asset turnover ratio also looks bad even after considering a possible overstatement of some current assets.
- ☐ D. None of above.

(g) Determine what does the increase in debt management ratios signify in this scenario.

(2 marks)

- ☐ A. The company is efficiently managing its debts.
- ☐ B. The company is borrowing at a slower rate than its growth.
- ☐ C. The company is borrowing faster than its growth, leading to increased risk.
- ☐ D. The company has successfully reduced its reliance on debt financing.

(h) Select all statements that accurately reflect the current situation.

(2 marks)

- ☐ A. The decreasing times interest earned ratio puts the long-term solvency situation of the company in danger.
- ☐ B. It echoes the market reaction to the company's leverage problem as reflected in its slumping share price.
- ☐ C. Increasing the equity multiplier ratio is a sign of reduced leverage burden.
- ☐ D. Leverage is beneficial for a firm during periods of low profitability.
- ☐ E. The financial results of HighTek are poor and getting worse, the high level of debt finance imposes a significant threat to its long-term solvency.

(i) Determine the profitability situation of the company.

Select the correct answer.

ROE still remains to be 12% which seems to be an unacceptable return. However, after a closer investigation, it is not due to the fact that there is a high level of risk inherent in the industry in general, and in this company in particular, as compared with the industry average ROE of about 23%.

(1 mark)

- ☐ A. True
- ☐ B. False

22 Ulbar Technology Company Limited ("UTC") is planning to invest in a potential project, "Water Taxi". The risks associated with the project "Water Taxi" are comparable to the risks of UTC's current operations. The proposed project will incur an initial cost of HK\$17.2 million that will be depreciated on a straight-line basis over ten years. The project also requires additional expenditure for repairs and maintenance of HK\$678,000 annually over the project's life. Management estimates that the project will generate cash inflows of HK\$4.78 million a year over its 10-year life. The initial investment will be depreciated on a straight-line basis over the life of the project. At the end of the ten years, the firm expects to sell the trucks and facilities for HK\$1.3 million.

You are the Chief Financial Officer of UTC estimating the discount rate, which is the cost of capital, for capital budgeting appraisal. The financial information of UTC with related market information are given below:

Common stock: There are 285 million shares outstanding selling for HK\$26.50 per share. The stock has a beta coefficient of 1.65.

Preferred stock: 35 million shares selling at HK\$75 per share, with dividend rate of 4.5% and face value of HK\$100.

Debt: Five years ago, the company issued 5 million 15-year annual coupon bonds with par value of HK\$1,000 each that are still outstanding now. Its coupon rate is 6%. The total market value of the coupon bonds are currently selling at HK\$4,699,417,007.

Market: The current U.S. Treasury Bill yields 3% and the expected return on the market is 9.5%. The company is in the 35% corporate tax bracket.

(a) Compute the cost of equity and the cost of preferred stock. (Round your answers to 2 decimal places.)

(4 marks)

Cost of equity = %

Cost of preferred stock = %

(b) Compute the pre-tax cost of debt for UTC.

(2 marks)

- ☐ A. 9.5%
- ☐ B. 4.45%
- ☐ C. 6%
- ☐ D. 6.85%

- (c) Assuming that UTC is going to maintain the current capital structure, compute the total market value of equity, preferred stock and cost of debt for the company. (Round your answers to the nearest dollar.)

(2 marks)

Total market value of equity is	HK\$	
Total market value of preferred stock is	HK\$	
Total market value of cost of debt is	HK\$	
Total market value of equity, preferred stock and cost of debt is	HK\$	

- (d) Assuming that UTC is going to maintain the current capital structure, compute the weighted average cost of capital ("WACC") for the company.

(2 marks)

- ☐ A. 4.62%
☐ B. 9.44%
☐ C. 9.50%
☐ D. 10.19%

- (e) Produce the forecast cash flows generated in Year 10, in the form of a pro-forma statement of profit or loss, for project "Water Taxi" of UTC.

(6 marks)

Forecasted cash flow for Year 10

	HK\$
Revenue/Cash inflows	4,780,000
Less:	
Earnings before tax	
Less: Tax	
Earnings after tax	
Add:	
Operating cash flow	
Add: Residual value of trucks and facilities	
Net cash flow	

- (f) Based on the result in part (e), calculate the net present value ("NPV") of Project "Water Taxi".

(2 marks)

- ☐ A. (HK\$ 9,363,400)
☐ B. HK\$ 3,902,096
☐ C. HK\$ 5,013,675
☐ D. HK\$ 9,363,400

- (g) Determine whether UTC should accept or reject the project accordingly.

(2 marks)

- ☐ A. As the NPV of the project is positive, UTC should accept the project.
☐ B. As the NPV of the project is positive, UTC should not accept the project.
☐ C. As the NPV of the project is negative, UTC should accept the project.
☐ D. As the NPV of the project is negative, UTC should not accept the project.

* * * END OF EXAMINATION PAPER * * *

Associate Module 7 Financial Management Pilot Paper

Answers

The purpose of the suggested answers is meant to help candidates in their revision and learning.

Questions	Answers	Marks Allocation
1	C	2
2	B	2
3	D	2
4	D	2
5	D	2
6	B	2
7	D	2
8	B	2
9	D	2
10	A	2
11	(i) EVA® and RI (ii) RI (iii) EVA® (iv) EVA® (v) EVA®	5
12	A,B,C,D	2
13	Acceptance/ Avoidance/ Ignorance/ Mitigation/ Transfer/ Retention/ Reduction	3
14	A	2
15	(i) Weak-form efficiency (ii) Strong-form efficiency (iii) Semi strong-form efficiency	3
16	B	2
17	C	2
18	A,B,C,D,E,F	2
19(a)	Current ROI Division A = 0.15 Division B = 0.20 Division C = 0.22 Current RI Division A = 0 Division B = 6,250,000 Division C = 3,500,000	3
19(b)	New ROI Division A = 0.16 Division B = 0.20	3

Questions	Answers	Marks Allocation
	Division C = 0.21 New RI Division A = 750,000 Division B = 7,000,000 Division C = 4,250,000	
19(c)	A,B,C	2
19(d)	A,C	2
20(a)	Expected return of WeTalk = 0.15 Expected return of FacePage = 0.13 Beta coefficient of WeTalk = 1.23 Beta coefficient of FacePage = 0.99	6
20(b)	Total risk of WeTalk = 0.05 Total risk of FacePage = 0.13	4
20(c)	True	1
20(d)	False	1
20(e)	True	1
20(f)	False	1
21(a)	A,B	2
21(b)	B,C,D	2
21(c)	True	1
21(d)	False	1
21(e)	A,B	2
21(f)	A	2
21(g)	C	2
21(h)	A,B,E	2
21(i)	False	1
22(a)	Cost of equity = 13.73% Cost of preferred stock = 6%	4
22(b)	D	2
22 (c)	Total market value of equity is HK\$7,552,500,000 Total market value of preferred stock is HK\$2,625,000,000 Total market value of cost of debt is HK\$4,699,417,007 Total market value of equity, preferred stock and cost of debt is HK\$14,876,917,007	2

Questions	Answers	Marks Allocation																						
22 (d)	D	2																						
22 (e)	<div>Forecasted cash flow for Year 10</div> <table><tr><td></td><td>HK\$</td></tr><tr><td>Revenue/ Cash inflows</td><td>4,780,000</td></tr><tr><td>Less: Repairs and maintenance expenses</td><td>678,000</td></tr><tr><td>Depreciation</td><td>1,720,000</td></tr><tr><td>Earnings before tax</td><td>2,382,000</td></tr><tr><td>Less: Tax</td><td>833,700</td></tr><tr><td>Earnings after tax</td><td>1,548,300</td></tr><tr><td>Add: Depreciation</td><td>1,720,000</td></tr><tr><td>Operating cash flow</td><td>3,268,300</td></tr><tr><td>Add: Residual value of the truck</td><td>1,300,000</td></tr><tr><td>Net cash flow</td><td>4,568,300</td></tr></table>		HK\$	Revenue/ Cash inflows	4,780,000	Less: Repairs and maintenance expenses	678,000	Depreciation	1,720,000	Earnings before tax	2,382,000	Less: Tax	833,700	Earnings after tax	1,548,300	Add: Depreciation	1,720,000	Operating cash flow	3,268,300	Add: Residual value of the truck	1,300,000	Net cash flow	4,568,300	6
	HK\$																							
Revenue/ Cash inflows	4,780,000																							
Less: Repairs and maintenance expenses	678,000																							
Depreciation	1,720,000																							
Earnings before tax	2,382,000																							
Less: Tax	833,700																							
Earnings after tax	1,548,300																							
Add: Depreciation	1,720,000																							
Operating cash flow	3,268,300																							
Add: Residual value of the truck	1,300,000																							
Net cash flow	4,568,300																							
22 (f)	B	2																						
22 (g)	A	2																						