

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2012

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1**

8.30am – 10.00am (1 hour 30 minutes)  
This paper must be answered in English

**GENERAL INSTRUCTIONS**

- (1) There are TWO sections, A and B, in this Paper.
- (2) Section A consists of multiple-choice questions in this question paper. Section B contains short questions printed separately in Question-Answer Book B.
- (3) Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the spaces provided in Question-Answer Book B. **The Answer Sheet for Section A and the Question-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

**SECTION A (60 marks)**

1. A convenience store chain is looking for a shop supervisor for one of its stores. Which of the following will not be a task for the new supervisor?
  - A. monitor the daily operations of the shop
  - B. coach shop assistants
  - C. handle disputes between staff and customers
  - D. decide on the development strategies for the chain
  
2. In an income statement, \_\_\_\_\_ should be deducted from sales, while \_\_\_\_\_ should be added to the cost of goods sold.
  - A. returns inwards; closing inventory
  - B. returns inwards; carriage inwards
  - C. returns outwards; opening inventory
  - D. returns outwards; carriage outwards
  
3. Which of the following accounts must be in debit balances on a trial balance?
  - (1) short term loans
  - (2) inventories
  - (3) bank
  - (4) premises
  - A. (1) and (3) only
  - B. (1) and (4) only
  - C. (2) and (4) only
  - D. (2), (3) and (4) only
  
4. The ownership of Small and Medium Enterprises (SMEs) can take different forms. SMEs
  - (1) cover market segments which are not served by large companies.
  - (2) provide more employment opportunities to local workers than large companies.
  - (3) enjoy a lower tax rate than large companies.
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
5. Which of the following types of employee is exempted from joining the Mandatory Provident Fund Scheme?
  - A. construction workers
  - B. security guards
  - C. catering workers
  - D. domestic employees
  
6. Which of the following is not within the process of controlling in a sales department of a business?
  - A. set sales targets
  - B. assign salespersons to different sales teams
  - C. record sales of each salesperson
  - D. adjust sales targets

**Based on the following information, answer Questions 7 to 8:**

Smart International is a company which specialises in analysing the opportunities in overseas markets and publishes related reports monthly. Businesses in Hong Kong can buy these reports, each with more than two hundred pages, at \$500 per copy. After one year, each copy is uploaded to the Internet to allow for free public access. Ronnie, the owner of a small toy manufacturer in Hong Kong, wants to explore the market potential overseas and buys these reports.

7. Why is Ronnie willing to buy these reports?
- (1) Timely information enables Ronnie to make appropriate business decisions.
  - (2) The cost of buying these reports is lower than searching for information by Ronnie.
  - (3) Each of these reports has more than two hundred pages.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
8. Ronnie wants to participate in a trade fair overseas to promote her business. Which of the following can provide a subsidy for her participation?
- A. SME Export Marketing Fund  
B. SME Loan Guarantee Scheme  
C. SME Development Fund  
D. Small Entrepreneur Research Assistance Programme
9. On the first day of 2012, Johnny deposited \$6000 into a fixed-interest bank account. Suppose the interest rate on the deposit is 4% per annum compounded annually, find out (to the nearest dollar) the total amount Johnny could withdraw at the end of 2014.
- A. \$6480  
B. \$6720  
C. \$6749  
D. \$7019
10. Which of the following are the impacts of globalisation on the business sector?
- (1) increased international trade
  - (2) reduced production cost of goods
  - (3) intensified global competition
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
11. Which of the following is not a purpose of the Closer Economic Partnership Arrangement (CEPA)?
- A. reduce barriers on the trade of goods between Hong Kong and the Mainland  
B. promote free trade in services between Hong Kong and the Mainland  
C. ensure free flow of information between Hong Kong and the Mainland  
D. facilitate cross-border business investment between Hong Kong and the Mainland
12. Which of the following statements is correct?
- A. All partners in a limited partnership enjoy limited liability.  
B. All shareholders of a limited company have voting rights in the board of directors' meeting.  
C. A limited company needs to disclose its financial statements to the public.  
D. A public corporation is owned by the government.



13. Which of the following is not a benefit of good corporate governance?
- reduce conflicts between stakeholders
  - improve image and reputation of firms
  - enhance investor confidence
  - ensure fair competition with other firms
14. Arrange the following tasks in the accounting cycle in sequence.
- prepare a trial balance
  - prepare financial statements
  - record transactions in day books
  - post entries to the ledger accounts
- (3) → (4) → (2) → (1)
  - (3) → (4) → (1) → (2)
  - (4) → (3) → (2) → (1)
  - (4) → (3) → (1) → (2)
15. A human resources manager is responsible for
- designing a performance appraisal system.
  - developing the skills and talents of staff.
  - arranging workflow.
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)
16. Which of the following transactions will affect the total amount of liability of a business?
- assets introduced by the owner into the business
  - goods sold to customers on credit
  - machinery bought with its price settled two months later
  - sales proceeds deposited into the business's bank account
17. On 1 January 2012, Mr Tong set up a firm and brought in motor vehicles of \$2000, premises of \$14 000 and inventory of \$5000 to the business. The firm borrowed \$3000 from the bank to acquire a piece of equipment. Meanwhile, Mr Tong put \$1000 into the firm's cash box and \$8000 into the firm's bank account.
- What was the amount of Mr Tong's capital on 1 January 2012?
- \$9 000
  - \$27 000
  - \$30 000
  - \$33 000
18. If a limited company wants to go public through the issuing of new shares, which of the following markets should it go to?
- primary market
  - listed exchange
  - secondary market
  - over-the-counter market

19. Which of the following are benefits of applying Management by Objectives in a business?
- (1) improved communication between management and staff  
 (2) better staff morale  
 (3) enhanced monitoring of staff performance
- 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 are functions of accounting?
- (1) evaluate business performance  
 (2) facilitate business planning  
 (3) enhance business competitiveness
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)
21. Which of the following client information is the least relevant factor for a bank to reject a client's application for a credit card?
- A. record of repayment  
 B. degree of loyalty to the bank  
 C. level of outstanding debts  
 D. record of bankruptcy
22. On 31 December 2011, the amount of total current liabilities of a company is \$120 000 and its current ratio is 3:1. What was the amount of working capital of the company on the same date?
- A. \$40 000  
 B. \$80 000  
 C. \$240 000  
 D. \$360 000
23. Which of the following are differences between a small firm and a large enterprise?
- |                          | <u>Small firm</u> | <u>Large enterprise</u> |
|--------------------------|-------------------|-------------------------|
| (1) Decision making      | flexible          | inflexible              |
| (2) Scope of business    | diversified       | specialised             |
| (3) Managerial hierarchy | fewer levels      | more levels             |
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)
24. Which of the following is the main function of the Hong Kong Monetary Authority?
- A. regulate securities and futures markets  
 B. operate securities and derivatives marketplace  
 C. maintain monetary and banking stability  
 D. determine the bank deposit interest rate

25. Which of the following are uses of a company's financial statements to the respective users?

	<u>Users</u>	<u>Uses</u>
(1)	Managers	help to reallocate the resources of the firm
(2)	Debtors	help to assess the repayment ability of the firm
(3)	Potential investors	help to decide whether the firm is worth investing in
A.	(1) and (2) only	
B.	(1) and (3) only	
C.	(2) and (3) only	
D.	(1), (2) and (3)	

26. The effective rate of return on a time deposit is raised if

- A. the frequency of compounding is higher.
- B. the principal is larger.
- C. the period of deposit is shorter.
- D. the cost of capital is lower.

27. Which of the following accounting principles and conventions has been violated if the owner of a restaurant charges the unpaid bills for meals with his family sometimes to the company's expense accounts but sometimes to his personal expense accounts?

- A. Accrual
- B. Business entity
- C. Consistency
- D. Going concern

28. Which of the following statements is not correct?

- A. The amount of total purchases should be posted to the purchases ledger.
- B. The petty cash book is one of the books of original entry.
- C. Only credit sales are recorded in the sales journal.
- D. Purchase of non-current assets on credit should be recorded in the general journal.

29. Which of the following are the characteristics of a successful entrepreneur?

- (1) willing to accept challenges
- (2) follow routine practices closely
- (3) strong desire to achieve
- A. (1) and (2) only
- B. (1) and (3) only
- C. (2) and (3) only
- D. (1), (2) and (3)

30. In a typical communication process, an idea is \_\_\_\_\_ by the sender to become a message. Through suitable \_\_\_\_\_, the message is transmitted and then \_\_\_\_\_ by the receiver.

- A. decoded.....feedbacks.....encoded
- B. encoded.....feedbacks.....decoded
- C. decoded.....channels.....encoded
- D. encoded.....channels.....decoded

**End of Section A**



Please stick the barcode label here.

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2012

Candidate Number

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**  
**PAPER 1**

**SECTION B: Question-Answer Book B**

8.30 am – 10.00 am (1 hour 30 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) After the announcement of the start of the examination, you should first write your Candidate Number in the space provided on Page 1.
- (2) Stick barcode labels in the spaces provided on Pages 1 and 3.
- (3) Refer to the general instructions on the cover of the Question Paper for Section A.
- (4) Answer **ALL** questions.
- (5) Write your answers to Section B in the spaces provided in this Question-Answer Book. Do not write in the margins. Answers written in the margins will not be marked.
- (6) Supplementary answer sheets will be supplied on request. Write your candidate number, mark the question number box and stick a barcode label on each sheet, and fasten them with string **INSIDE** this book.
- (7) No extra time will be given to candidates for sticking on the barcode labels or filling in the question number boxes after the 'Time is up' announcement.

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**SECTION B (40 marks)**

1. Explain three limitations on the use of financial statements. (6 marks)

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2. Mr Ho is a toy manufacturer. Recently, he has received a number of complaints from his customers about paint peeling off from his toys. A management consultant tells Mr Ho that having good operations management can reduce the number of defective items.

In what ways could operations management help Mr Ho to reduce the number of defective items? Give two ways. (4 marks)

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3. Mr Au is an inexperienced investor and the majority of his investments are in the shares of a single company. His son suggests that he should switch part of his investments to a mutual fund or other less risky financial instruments with stable returns.

(a) Briefly explain one purpose that Mr Au could achieve through investing in a mutual fund. (2 marks)

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Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.



Please stick the barcode label here.

(b) List two less risky financial instruments with stable returns for Mr Au.

(2 marks)

4. After discussion, the board of directors of a company resolves to freeze the salaries of its staff for one year starting from 1 July 2012. Mr Kan, the Human Resources Manager, was assigned to deliver the message to the staff of the company. He drafted the following email:

From: Kan  
To: All Staff  
Subject: Salary

Dear all,

As you all know, the global economy is deteriorating and many people around the world have lost their jobs. You, especially those with poor qualifications and poor working attitudes, should be glad that you haven't been fired by the company. As the company is already being kind in not laying you off, please don't talk about the salary issue in the future as this has been discussed and finalised.

Kan

List two principles of effective communication and give an example of each from the above email to explain why the message is not effectively communicated in this case. (4 marks)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

5. The following account information relates to Yip's business for the year ended 31 December 2011:

	\$
Office equipment	220 000
Trade receivables	67 000
Opening inventory	34 000
Closing inventory	42 000
Bank overdraft	17 600
Trade payables	26 300
Loan from Sam's Company (repayable in 2020)	38 000
Opening capital	231 000
Sales	109 000
Purchases	76 100
Rent and rates	12 000
Salaries	9 000
Other operating expenses	7 900
Discounts received	4 100

- (a) Prepare the statement of financial position for Yip's business as at 31 December 2011. (5 marks)

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.





7. Mary is an experienced designer who has a wide customer network. She is considering setting up a small interior design firm on her own. At the same time, another designer, Paul, invites her to form a partnership.

(a) Give two reasons why Mary should accept Paul's invitation instead of setting up a firm on her own. (4 marks)

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(b) Mary finally sets up the interior design firm on her own. List two criteria for setting good business goals for her. Explain each with an example. (4 marks)

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**END OF PAPER**

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
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**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2B**  
**Business Management Module**

10.45 am – 1.15 pm (2 hours 30 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) There are three sections in this paper.
- (2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.
- (3) Write your answers in the answer book. **Start each question** (not part of a question) **on a new page**.
- (4) Supplementary answer sheets will be supplied on request. Write your candidate number, mark the question number box and stick a barcode label on each sheet, and fasten them with string **INSIDE** the answer book.

Not to be taken away before the  
end of the examination session

## SECTION A

Answer **ALL** questions in this section.

1. What is indirect compensation? State two purposes of providing indirect compensation to employees. (6 marks)
  
2. Outline the three essential elements of a sales and purchase contract of a product. (6 marks)
  
3. Collective bargaining can promote industrial relations in several ways. Explain three of these ways. (6 marks)
  
4. With reference to any three management functions, explain how budgeting is useful to the management of a company. (6 marks)
  
5. State three benefits to a bookstore of using e-marketing to perform its distribution function. (6 marks)





## SECTION B

Answer ALL questions in this section.

6. Mr Li is an experienced chef who has worked for several five-star hotels in Hong Kong. Two years ago, Mr Li established a French restaurant called Platine in Tsim Sha Tsui. Platine offers a good selection of traditional French cuisine and wines in a spacious environment. As Mr Li likes eating fine food, almost all the ingredients and wines of the restaurant are imported from France.

Platine's profits were satisfactory in the first year after its commencement. However, sales declined and losses were incurred in the last few months. To turn the situation around, Mr Li has employed a management consultant, Mr Sze, to analyse the restaurant's problems.

After a thorough investigation, Mr Sze thinks that high inventory cost, such as the inventory cost of oysters, is one of the reasons for the losses. The past sales records show that Platine sold 400 dozens of oysters each week. Oysters were ordered in dozens and the ordering cost was \$800 per order. The average holding cost per dozen oysters was \$16 per week. As oysters are among the favourite dishes provided by Platine, it is the restaurant's practice to order 600 dozen oysters each time to avoid shortages. Hence, many oysters have to be disposed of, leading to an unnecessary cost to the restaurant. In view of this, Mr Sze suggests that the restaurant can adopt the Economic Order Quantity (EOQ) model to reduce its inventory cost.

Mr Sze explains that fluctuations in the exchange rate of the Euro also have a great impact on the restaurant's profits as most of its ingredients and wines are imported from France. He then mentions that hedging is a method commonly used to manage such risk.

Finally, Mr Sze comments that fine food quality and nice dining environment are not enough to keep customers as they consider a lot of factors in making their purchase decisions. Mr Sze suggests that Mr Li should make use of the marketing concept in operating his restaurant and at the same time develop effective marketing mix strategies to enhance its competitiveness.

- (a) (i) Explain how the use of the EOQ model can reduce inventory cost. (3 marks)
- (ii) Using the EOQ model, calculate the optimal order quantity of oysters (in dozens) for Platine. Show your workings. (2 marks)
- (b) Briefly describe two ways to hedge against the Euro exchange rate risk. (4 marks)
- (c) Use the case of Platine to illustrate the meaning of marketing concept. (3 marks)
- (d) With reference to the customer decision-making process, outline the steps Platine's customers should take before they make their purchase decisions. (6 marks)
- (e) Other than product, there are three other elements of the marketing mix. Suggest one way in which Platine can use each of these other elements to enhance its competitiveness. (6 marks)

(Total: 24 marks)

7. Skyline Airways is a long-established listed company based in Hong Kong. The company has a wide network serving travellers all over the world. Over the last decade, the company has gained a reputation and its earnings were satisfactory.

At a regular meeting, the Customer Relations Manager reported that there had been an increase in the number of customer complaints against crew members. The Human Resources Manager commented, "Our company policy and working conditions are among the best. The salary and welfare of the crew members have been improving, making our compensation packages more competitive than the other airline companies. However, the supervisors tend to be conservative in appraising employees, so only a small number of crew members get promoted. This may adversely affect their morale."

The Financial Manager raised other concerns, "We are in a period of economic fluctuation and rising oil price, which may affect our profits. Unfortunately these risks are uninsurable. Also, more and more travel agencies delay their payments. As we rely quite heavily on agencies' sales, it seems that there is a need to review and tighten the existing credit policy."

The Chief Executive Officer (CEO) added, "Apart from the above problems, we are now facing increasing risks and challenges as a result of rapid environmental change. Even though the company is able to maintain its business, exploring ways to expand and diversify our business is of great strategic importance. Therefore, we are now planning to take over a flight catering company which involves a substantial amount of money. On top of the cash reserve, we need to find other ways to obtain more funds for the takeover."

The meeting ended with the CEO's request for a proposal from the top management on the issues raised, which would be discussed at the next meeting.

- (a) From the perspective of human resources management, identify two possible adverse consequences of crew members' low morale to Skyline Airways. (4 marks)
- (b) With reference to Herzberg's Dual-Factor theory, suggest three ways to motivate the crew members of Skyline Airways. (6 marks)
- (c) Give three reasons why the risk of economic fluctuation faced by Skyline Airways is uninsurable. (6 marks)
- (d) List any two elements of credit policies. Suggest one way in which Skyline Airways can use each of these two elements to reduce the delays in payment by travel agencies. (4 marks)
- (e) Suggest three sources of funds for the above takeover. Give a reason for each of your suggestions. (6 marks)

(Total: 26 marks)

## SECTION C

Answer ONE question in this section.

8. Training of front-line staff is important to banks.
- (a) Describe the steps that a bank should take to perform its training function. (10 marks)
  - (b) A large bank is considering buying an expensive computer system to be used for training its front-line staff. Assume the Net Present Value (NPV) method is used to evaluate the purchase of the computer training system, identify the variables of the NPV formula and illustrate the meaning of each with an example. (10 marks)
- (Total: 20 marks)
9. Tourism is one of the major industries in Hong Kong. As the number of visitors from the Mainland increases and the industry outlook for the hotel sector becomes more positive, new hotels are going to be set up.
- (a) Suggest the bases of market segmentation for a new hotel. (8 marks)
  - (b) Illustrate with examples to explain why customer relationship management (CRM) is important to a hotel. (12 marks)
- (Total: 20 marks)

**END OF PAPER**



## Marking Guidelines

### PAPER 1 Compulsory Part

#### SECTION A

Question No.	Key	Question No.	Key
1.	D (88%)	16.	C (78%)
2.	B (83%)	17.	C (42%)
3.	C (52%)	18.	A (62%)
4.	A (21%)	19.	D (59%)
5.	D (74%)	20.	A (81%)
6.	B (45%)	21.	B (84%)
7.	A (88%)	22.	C (47%)
8.	A (55%)	23.	B (69%)
9.	C (71%)	24.	C (72%)
10.	D (78%)	25.	B (52%)
11.	C (66%)	26.	A (73%)
12.	D (62%)	27.	B (77%)
13.	D (75%)	28.	A (33%)
14.	B (83%)	29.	B (72%)
15.	A (42%)	30.	D (85%)

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

#### SECTION B

##### *General Principles of Marking*

- The answers given in this marking scheme are 'suggestions' only. Other relevant answers will also be accepted.
- Where the number of points required is specified in a question, markers will mark the first listed points up to the number required, and cross out other points as 'excess'.
- The general guidelines for points which are awarded 0 to 2 marks each are as follows:

0 mark	:	irrelevant or ambiguous answers
1 mark	:	mention of key concept or words
2 marks	:	explanation of the concept stated
- The following constitute the award of presentation mark, where applicable:
  - proper account or statement title
  - indication of \$ (or \$'000) for the relevant amount columns
  - proper headings in the financial statements
  - narrations for journal entries
  - account/statement presented in accordance with specifications in the question

**QUESTION 1****Marks**

Limitations:

6

- information is mostly quantitative
  - data relate to past events only
  - different use of accounting methods and policies makes intra-company comparison difficult
  - neglect of time value of money hinders users to do inter-period comparison of the company
- (2 marks for each relevant limitation, max. 6 marks)

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**Total: 6 marks**

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**QUESTION 2**

Ways:

4

- inventory management: ensure a reasonable stock level to avoid wear and tear from over-storage
  - revision of design of the production process: to locate and correct the problem that leads to the defect
  - quality control: set standards to ensure goods provided are of high quality
- (2 marks for each relevant ways, max. 4 marks)

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**Total: 4 marks**

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**QUESTION 3**

(a) Purposes:

2

- risk diversified
  - simplified assets management
- (2 marks for each relevant purpose, max. 2 marks)

(b) Suggestions:

2

- fixed time deposit
  - government bonds
  - exchange fund bills
- (1 mark for each relevant suggestion, max. 2 marks)

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**Total: 4 marks**

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**QUESTION 4**

Principles and their examples:

4

- courtesy: the tone is rude and offensive (e.g. negative description of staff's educational background)
  - concreteness: the purpose is not clearly stated (e.g. suspension on staff's salary)
  - completeness: important information has been omitted (e.g. the period for the suspension of salary)
- (2 marks for each relevant point, max. 4 marks)

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**Total: 4 marks**

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**QUESTION 5**

**Marks**

(a) Statement of financial position as at 31 December 2011

	\$	\$	
<b>Non-current assets</b>			
Office equipment		220 000	½
<b>Current assets</b>			
Inventory	42 000		½
Trade receivables	67 000		½
	<u>109 000</u>		
<b>Less: Current liabilities</b>			
Trade payable	(26 300)		½
Bank overdraft	<u>(17 600)</u>		½
		65 100	
<b>Less: Non-current liabilities</b>			
Loan from Sam's Company		<u>(38 000)</u>	½
		<u>247 100</u>	
<b>Financed by</b>			
Capital as at 1 January 2011		231 000	½
Add: Net profit		16 100	1
		<u>247 100</u>	

*(Presentation: ½)*  
(5)

(b) Gross Profit ratio:  

$$\frac{[\$109\,000 - (\$34\,000 + \$76\,100 - \$42\,000)]}{\$109\,000} \times 100\%$$
 = 37.52%

1  
1  
(2)  
Total: 7 marks

**QUESTION 6**

(a)

- \$38 000 1
- going concern 1
- as the business discontinued its operation in the foreseeable future, assets should not be valued at historical cost but current market value 1

(3)

(b) Adverse effects to 4

- lenders: may fail to collect all their money lent to the business
- customers: may fail to receive products / services they paid for
- suppliers: may fail to collect all the payments for their goods sold or services provided
- government: may fail to collect the tax due

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

Total: 7 marks



**QUESTION 7**

**Marks**

- (a) Reasons: 4
- share of risk / workload
  - more sources of capital
  - more expertise / innovative ideas
- (2 marks for each relevant reason, max. 4 marks)
- (b) Criteria and its examples: 4
- specific: e.g. earn a definite amount of profit
  - time-based: e.g. earn a certain amount of profit in the first year of operations
  - measurable: e.g. achieve a 10% increase in profit
  - challenging but attainable: e.g. earn a reasonable amount of profit
- (2 marks for each relevant point, max. 4 marks)

Total: 8 marks

**END OF PAPER 1**

**PAPER 2B**  
**Business Management Module**  
**Elective Part**

***General Principles of Marking***

1. The answers given in this marking scheme are 'suggestions' only. Other relevant answers will also be accepted.
2. Where the number of points required is specified in a question, markers will mark the first listed points up to the number required, and cross out other points as 'excess'.
3. Essay questions require a discussion of the different aspects involved and a maximum mark is set for each point given in the marking scheme.
4. The general guidelines for points which are awarded 0 to 4 marks each are as follows:

0 mark	:	irrelevant or ambiguous answers
1 mark	:	relevant phrases containing key words that answer the question
2 marks	:	a relevant point or answer with a brief explanation of the concept/key words stated
3 to 4 marks	:	a relevant point or answer elaborated with illustration of how it is related to the given scenario

**SECTION A**

**QUESTION 1**

**Marks**

Indirect compensation:

2

- benefits other than normal wages and salaries

Purposes:

4

- enhance employees' senses of belongings
- retain employees
- attract high calibre employees

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

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6 marks

**QUESTION 2**

Essential elements:

6

- offer: the buyer offers to buy a product under certain terms
- acceptance: the seller accepts the offer
- consideration: the buyer receives the product and the seller receives the agreed terms

(2 marks for each relevant element, max. 6 marks)

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6 marks

### QUESTION 3

Marks

Ways:

6

- improve communication: create a platform for discussion
- enhance efficiency: minimise the cost of negotiation between the management and individual employees
- facilitate discussion and mutual understanding: balance the power between employer and employees
- more systematic: provide a formal channel in resolving disputes

(2 marks for each relevant way, max. 6 marks)

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6 marks

### QUESTION 4

Budgeting is useful in:

6

- planning: forecast figures provide directions for formulating action plan
- organising: budget information assists resources allocation, cooperation and integration across various functional departments
- leading: quantified indicators become specific targets for employees
- controlling: budget figures serve as performance standards

(2 marks for each relevant uses, max. 6 marks)

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6 marks

### QUESTION 5

Benefits:

6

- cost-saving: reduce rent and labour cost
- wide coverage: easier access by customers from all over the world
- convenience to customers: facilitate sales
- extended service hours: enable round-the-clock service

(2 marks for each relevant benefit, max. 6 marks)

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6 marks



SECTION B

QUESTION 6

Marks

- (a) (i) At the EOQ, the total inventory cost (i.e. ordering cost and carrying cost) is minimal among all possible quantities. 3
- (ii)  $EOQ = \sqrt{\frac{2(400)(800)}{16}}$  dozens 1  
= 200 dozens 1
- (b) Ways: 4
- buy and deposit Euro
  - buy forward contracts on Euro
  - buy call options of Euro
  - buy futures on Euro
- (2 marks for each relevant way, max. 4 marks)
- (c) Marketing concept: 2
- A business should analyse the needs of its customers and take appropriate measures to satisfy those needs in order to make profit. 1
  - Platine should investigate the taste and preferences of its customers and offer the menu items that meet their needs.
- (d) Steps: 6
- stimulus: e.g. read an advertisement in a food magazine
  - need/problem awareness: e.g. feel hungry
  - information search: e.g. obtain information from personal sources (e.g. family or friends) or commercial sources (e.g. advertisements on magazine or website)
  - development of alternatives: e.g. choose several restaurants
  - evaluation of alternatives: e.g. compare Platine with other restaurants
- (2 marks for each relevant step, max. 6 marks)
- (e) Ways: 6
- price: e.g. competition-based pricing / price differentiation
  - promotion: e.g. advertisement / waiter's recommendations
  - place: e.g. take away service / longer service hours
- (2 marks for each relevant way, max. 6 marks)

24 marks

**QUESTION 7**

**Marks**

- (a) Adverse consequences: 4
- higher absenteeism / labour turnover
  - lower job satisfaction
  - poor performance due to lack of motivation
- (2 marks for each relevant consequence, max. 4 marks)

- (b) Ways: 6
- give sense of recognition and achievement to employees
  - empowerment and allow job autonomy
  - offer more development opportunities
  - adjust job content to make it more interesting and challenging
- (2 marks for each relevant way, max. 6 marks)

- (c) Reasons: 6
- difficult to measure the probability of financial loss
  - the loss is not accidental
  - law of large number is not easily applied
  - the risk is speculative
- (2 marks for each relevant reason, max. 6 marks)

- (d) Ways: 4
- collection policy: expedite debt collection procedures
  - credit term: adjust the discount terms to encourage early repayment
  - credit standard: set stringent credit standards and credit limits to wipe out those travel agencies with poor repayment records
- (2 marks for each relevant way, max. 4 marks)

(e) 6

<i>Sources of fund:</i>	<i>Reasons</i>
Issue of shares	<ul style="list-style-type: none"> <li>- no interest burden or collateral requirement</li> <li>- avoid increasing the gearing / leverage ratios</li> <li>- no repayment required</li> </ul>
Issue of debenture	<ul style="list-style-type: none"> <li>- no dilution of control and shareholdings</li> <li>- enjoy tax saving on interest expense</li> <li>- benefit from leverage effect</li> </ul>
Long-term bank borrowings	<ul style="list-style-type: none"> <li>- no issuing cost</li> <li>- enjoy tax saving on interest expense</li> <li>- benefit from leverage effect</li> </ul>
Liquidation on fixed assets	<ul style="list-style-type: none"> <li>- no issuing cost</li> <li>- no interest or dividend burden</li> <li>- fully utilise the financial resources</li> </ul>

(1 mark for each source and 1 mark for each relevant justification, max 6 marks)

26 marks

SECTION C

QUESTION 8

Marks

- (a) Steps: 10
- identify training needs: e.g. unawareness of front-line staff on regulations of investment products
  - formulate training objectives and plan: e.g. update front-line staff on the latest regulations of investment products
  - design training programme(s): e.g. in forms of workshops, on-line training kit
  - implement the training programme: e.g. require front-line staff to attend the training within a specific period of time
  - evaluate the effectiveness of the training programme: e.g. written test for front-line staff on the regulations of investment products
- (2 marks for each relevant step, max. 10 marks)

- (b) NPV formula and relevant examples: 10
- initial outlay: cost of purchase of the computer training system
  - cash flows: cash inflows may include cost saved from hiring of trainer whereas cash outflows may include maintenance cost of the system
  - discount rate: cost of capital, interest rate on loans or required rate of return
  - project life: year of usage of the computer training system
  - net present value: discounted monetary value of the computer training system, i.e. positive value means worth buying, negative value means not worth buying
- (1 mark for each relevant variable and 2 marks for each relevant example, max. 10 marks)

20 marks

QUESTION 9

- (a) Bases for market segmentation: 8
- geographic segmentation: countries, cities or neighbourhood, e.g. target those guests from the Mainland
  - demographic segmentation: age, sex, income, occupation, family life cycle and educational level, e.g. a 5-star hotel targets those guests with higher income
  - psychographic segmentation: social class, life style and personality characteristics, e.g. target those guests from the upper class
  - benefit segmentation: product benefits that customers seek, e.g. target those guests who seek for a convenient location
- (2 marks for each relevant base, max. 8 marks)

- (b) CRM is a process that involves the use of customers' information to build and maintain customer relationships in an organised way. 2

Reasons:

- more knowledge about customers thus better services can be provided
- lower cost to serve existing customers
- easier to retain customers than to acquire new customers
- increase cross-selling opportunity

(3 marks for each relevant reason, max. 10 marks)

20 marks

END OF PAPER 2B