

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION 2013

**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.

**SECTION A** (60 marks)

Choose the **best** answer for each question.

1. Which of the following descriptions about a franchised shop is correct?
  - A. operates under the authorisation of franchisor
  - B. has full control over its promotion strategies
  - C. must be registered as a limited company
  - D. only applicable to retail and catering businesses
  
2. The primary function of a financial market is to transfer funds from economic units with surpluses to economic units in need of them. Which of the following sectors help performing this function?
  - (1) banking sector
  - (2) insurance sector
  - (3) securities sector
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
3. Which of the following transactions would be recorded in the General Journal?
  - A. purchase of goods on credit
  - B. goods returned from customers
  - C. introduction of office premises as capital
  - D. cash drawings for personal use by the proprietor
  
4. A company has decided to change its overall business objectives and drafted a business plan for the coming 10 years. This kind of business plan is a
  - (1) strategic plan.
  - (2) long-term plan.
  - (3) operational plan.
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
5. All the owners of a business enjoy limited liability. Although the business has no regulatory obligation to disclose its financial reports, it still publishes these reports via the internet each year. The business is a
  - A. limited partnership.
  - B. private limited company.
  - C. company listed on the Main Board.
  - D. company listed on the Growth Enterprise Market Board.
  
6. Which of the following statements is correct?
  - A. A 6-month government bill is an investment instrument in the equity market.
  - B. An investment instrument with a higher risk may yield a higher return.
  - C. Market risk can be avoided by investing in various financial products.
  - D. Investment in the preferred stock is more risky than in the common stock of a company.

7. In which of the following ways could corporate governance be promoted in a business?
- (1) introduce a code of conduct to its employees
  - (2) publicise the product catalogue to public
  - (3) invite customers to give comments
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
8. Which of the following statements are correct?
- (1) Authority can be assigned to subordinates.
  - (2) Authority is the right to direct and make decisions.
  - (3) Front-line staff do not need authority to perform their duties.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
9. King Lung Company owed Tin Tin Company \$56 000 on 1 December 2012. On 10 December 2012, Tin Tin Company sold goods costing \$80 000 at a gross profit margin of 50% to King Lung Company. On 15 December 2012, King Lung Company settled the beginning balance of the month with a cash discount of 3%. The balance of King Lung Company's account in Tin Tin Company's books as at 31 December 2012 would be:
- A. \$54 320 (credit balance)
  - B. \$104 000 (debit balance)
  - C. \$120 000 (credit balance)
  - D. \$160 000 (debit balance)
10. On 1 January 2012, Good Fortune Company signed a tenancy contract to rent an office for two years from 1 February 2012 to 31 January 2014. On the same day, it made a payment of \$208 000 to the landlord for the rent from February to March 2012 and a deposit equaled to two months' rent. The rental expense shown in the income statement for the year ended 31 December 2012 was:
- A. \$572 000
  - B. \$624 000
  - C. \$1 144 000
  - D. \$1 248 000
11. Which of the following statements regarding Small and Medium Enterprises (SMEs) in Hong Kong is correct?
- A. SMEs enjoy a lower tax rate.
  - B. SMEs can be listed on the stock exchange.
  - C. SMEs are involved in primary and secondary production only.
  - D. SMEs do not hire more than twenty employees.
12. Which of the following is not a function of World Trade Organisation?
- A. provide a forum for negotiation aimed at reducing obstacles to international trade
  - B. settle disputes among its members regarding the interpretation of trade agreements
  - C. monitor and review the trade policies of its members
  - D. provide loans and subsidies to developing countries for trade development



13. Which of the following tasks are performed by the marketing department of a company?

- (1) conducting surveys on customer needs
- (2) deciding the price of the product
- (3) paying bonus to salespersons

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

14. Which of the following items are to be provided in the income statement of a business?

- (1) profits earned during the accounting period
- (2) air freight charges for senior managers attending overseas meetings
- (3) trade discounts allowed to regular customers

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

15. A bank launches the following savings plans:

	Plan I	Plan II	Plan III
Interest rate	5% per annum	5.5% per annum	6% per annum
Frequency of interest compounding	quarterly	half-yearly	yearly

Which plan(s) offer(s) the highest return after two years?

- A. Plan I
- B. Plan II
- C. Plan III
- D. Plan I and Plan III

16. Which of the following would encourage a multi-national trading company to move its headquarters to Hong Kong?

- (1) larger number of multi-national companies than small and medium enterprises in Hong Kong
- (2) good transportation network between Hong Kong and other Asian cities
- (3) lower profits tax rate in Hong Kong

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

17. \_\_\_\_\_ promotes the stability and integrity of the banking system while \_\_\_\_\_ administers listing, trading and clearing rules in Hong Kong.

- A. Hong Kong Monetary Authority ... Securities and Futures Commission
- B. Hong Kong Monetary Authority ... Hong Kong Exchanges and Clearing Limited
- C. Securities and Futures Commission ... Hong Kong Monetary Authority
- D. Securities and Futures Commission ... Hong Kong Exchanges and Clearing Limited

Based on the following information, answer Questions 18 and 19:

The following were the account balances of King Kong Company as at 31 December 2012:

	\$
Capital	199 800
Cash in hand	25 000
Cash at bank	?
Trade receivables	10 500
Trade payables	5 500
Sales	232 000
Purchases	108 000
Inventory as at 1 January 2012	15 000
Discounts allowed	5 600
Office equipment	280 000
Administrative expenses	32 000
Returns outwards	6 800
Commission received	8 700
Carriage inwards	4 500

18. What was the balance of the cash at bank account as at 31 December 2012?
- A. \$16 600  
 B. \$27 800 (overdraft)  
 C. \$30 200  
 D. \$41 400 (overdraft)
19. If the inventory as at 31 December 2012 was \$13 400, what would be the gross profit for the year?
- A. \$117 900  
 B. \$122 400  
 C. \$124 700  
 D. \$129 200
20. The following are Peter's personal budget and actual incomes and expenses for the month of April 2013:

<u>Items</u>	<u>Budgeted amount</u>	<u>Actual amount</u>
<i>Incomes</i>		
	\$	\$
Salary (Part time job)	6 000	6 000
Pocket money	1 000	1 000
<i>Expenses</i>		
Transportation fees	500	560
Books and stationery	1 050	1 480
Mobile phone charges	150	150
Food and beverages	900	810
Entertainment fees	850	970
<i>Saving</i>	?	?

The budgeted saving of Peter for April 2013 is \_\_\_\_\_, which is \_\_\_\_\_ than his actual saving for the month.

- A. \$3030 ... .. less  
 B. \$3030 ... .. more  
 C. \$3550 ... .. less  
 D. \$3550 ... .. more

21. Alice sends an email to invite Benny to attend the opening ceremony of her business. Which of the following descriptions relating to the above communication process is correct?
- there must be a feedback
  - the message was not encoded
  - the message has to be decoded
  - the computer keyboard is the channel
22. Which of the following statements are correct?
- Hong Kong is an offshore Renminbi Business Centre of Mainland China.
  - The main origin and destination of Hong Kong's re-exports of goods are Mainland China.
  - "Closer Economic Partnership Arrangement" (CEPA) aims at raising capital in Hong Kong for Mainland enterprises.
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)
23. All entrepreneurs:
- earn profits by taking business risks.
  - start businesses with their own capital.
  - enter the market with new products.
  - possess extensive knowledge and experience in the business.

24. If a bank is offering you a four-year personal instalment loan plan of \$10 000 under a flat rate arrangement with the following repayment schedule:

<u>End of Year</u>	<u>Repayment Amount</u>
	\$
1	2 900
2	2 900
3	2 900
4	<u>2 900</u>
Total	<u>11 600</u>

What is the annual flat rate of this instalment loan plan?

- 3.45%
  - 4%
  - 7.25%
  - 16%
25. Mary is a Secondary 5 student. She has just earned \$8000 from her summer job. She plans to use the money for paying her university tuition fee one year later. If she wants to keep the principal and at the same time looks for some returns, which of the following instruments is most suitable to her?
- current account
  - fixed deposit
  - blue chips
  - warrants

Based on the following information, answer Questions 26 and 27:

	Lung Hing Company	Fat Tat Company
Turnover	\$45 000 000	\$52 000 000
Gross profit ratio	28%	25%
Net profit ratio	19%	22%
Current ratio	1.81 : 1	2.43 : 1
Liquid ratio	0.75 : 1	1.65 : 1

26. Which of the following comments on the financial performance of Lung Hing Company as compared with Fat Tat Company is correct?

Lung Hing Company has

- A. higher gross profit.
- B. higher net profit.
- C. higher cost of goods sold.
- D. higher operating expenses.

27. Which of the following comments on the liquidity of Lung Hing Company as compared with Fat Tat Company is correct?

Lung Hing Company has

- A. higher proportion of funds tied up in inventory.
- B. higher liquidity.
- C. more current assets to meet short-term obligations.
- D. fewer current liabilities.

28. Which of the following double entries are correct?

<u>Transactions</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1) Withdrew \$20 000 cash from the bank account for business uses.	Drawings	Bank
(2) Paid sundry expenses \$3000 in cash.	Sundry expenses	Cash
(3) Received a bank loan of \$200 000 via the bank account.	Bank	Bank loan

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

29. A trading company provides a notebook computer with mobile internet connectivity to each member of its sales team. Which of the following are the benefits of such arrangement to the company?

- (1) help updating the sales figures
- (2) enhance information flow between the sales team members
- (3) facilitate communication with clients

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



30. Which of the following are tasks of accounting?

- (1) classifying and recording business transactions
- (2) equipping the purchasing system with security measures
- (3) summarising and reporting the performance of the company's sales periodically

- 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 (40 marks)**

1. (a) Many people are using credit cards to purchase goods and services. Explain two benefits for customers of using credit card. (4 marks)

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- (b) Explain one reason why credit card companies are more willing to issue credit cards to applicants with good personal credit records. (2 marks)

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2. Ken owns a fast-food chain business with more than 50 outlets in Hong Kong. He is going to expand his business by offering delivery services all over Hong Kong. Wendy, a business consultant, recommends Ken to establish a telephone hotline centre in the Mainland to take orders from customers in Hong Kong and direct the Hong Kong outlets to deliver the meals.

Explain three types of external factors that would affect Ken's decision on whether to set up a telephone hotline centre in the Mainland. (6 marks)

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3. For each of the independent situations described below, state the accounting principle or concept that has been violated and give a brief explanation.

(a) The owner of a firm, Mr Chan, bought a pearl necklace worth \$85 000 for his wife with a firm's cheque. The bookkeeper recorded the transaction as follows: (3 marks)

	Dr.	Cr.
	\$	\$
Sundry expenses	85 000	
Bank		85 000

(b) The owner of a firm, Miss Lee, bought a notebook computer of \$12 000 for office use. She heard from the dealer that its market value at that time was \$14 000. The bookkeeper recorded the transaction as follows: (3 marks)

	Dr.	Cr.
	\$	\$
Office equipment	14 000	
Bank		12 000
Gain on purchase of office equipment		2 000

4. Information management can support the human resources department of a company in different ways. List three of them. (3 marks)

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Answers written in the margins will not be marked.

Answers written in the margins will not be marked.

5. David is a sole proprietor who keeps records of his cash and bank transactions in a three-column cash book. The balances in the cash book as at 1 January 2013 were: cash \$12 680 and bank overdraft \$30 980. In addition, a petty cash imprest amount of \$2000 was maintained on that date. Transactions made in January 2013 were as follows:

2013

- Jan 2 Received a cheque from a customer, Lung, who was given a cash discount of 2½% to settle his account of \$150 000. The cheque was banked on the same day.
- 5 Paid a 20% deposit by cheque for the purchase of a motor van costing \$200 000. The balance was to be paid on delivery two weeks later.
- 7 Received a cheque of \$190 000 from Hilly Company as commission for work done.
- 14 Cash amounting to \$8790 from sales were deposited into the bank directly.
- 17 David withdrew \$3200 from the cash box to pay his son's school fees.
- 19 Paid the balance of the motor van purchased on 5 January by cheque.
- 24 Settled Kam Kee's account of \$35 000 by cheque, with a cash discount of 3%.
- 28 Withdrew \$9000 from the bank and put the money in the cash box for business use.
- 30 Paid wages of \$10 000 in cash and \$20 000 by cheque.
- 31 Petty cash had a balance of \$205. The petty cash imprest amount was replenished with cash.

Write up a three-column cash book for January 2013.

(8 marks)

Answers written in the margins will not be marked.



Answers written in the margins will not be marked.

6. Explain three ways in which division of work could enhance the efficiency of a manufacturing company. (6 marks)

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7. In the sales department of a firm, the manager and the sales representatives discussed and agreed on the sales target for a quarter. Throughout the quarter, the manager met the sales representatives regularly to discuss problems encountered and gave appropriate support. At the end of the quarter, the manager reviewed the performance of the sales representatives and gave them rewards and feedback.

(a) Name the principle of effective management applied in the above sales department. (1 mark)

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(b) From the sales department's point of view, explain two advantages of applying the principle of effective management named in (a). (4 marks)

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**END OF PAPER**

Answers written in the margins will not be marked.

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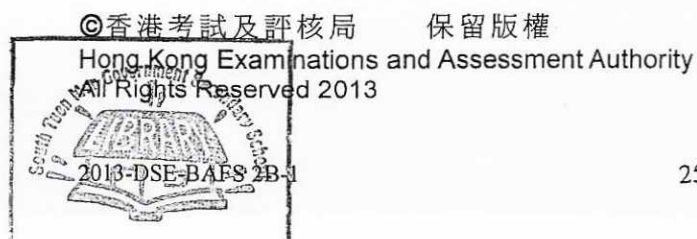
**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES      PAPER 2B**  
**Business Management Module**

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** (30 marks)

Answer **ALL** questions in this section.

1. Briefly describe three uses of performance appraisal to a company. (6 marks)
  
2. Explain three types of factors that a company would consider to evaluate the risk of granting credit to a customer. (6 marks)
  
3. From the perspective of customer relationship management, give two reasons why retaining existing customers is more important than attracting new customers. (4 marks)
  
4. Describe in sequence three progressive disciplinary actions that a company can adopt if an employee is guilty of repeated misconduct. (6 marks)
  
5. Suggest two advantages to a multi-national corporation of adopting divisional departmentalisation by geographical location. (4 marks)
  
6. Give two reasons to explain why contracts are important in the business sector. (4 marks)



**SECTION B (50 marks)**

Answer **ALL** questions in this section.

7. Yummy Group is a listed fast food chain in Hong Kong, established by Mr Lee twenty years ago.

In a meeting, Mr Lee said, "I want to discuss two issues today. First, as discussed before, the fast food market is saturated, so is it time for us to diversify our business? Second, in view of the recent incidents of food poisoning in some local fast food chains, we have to formulate strategies to manage this risk."

The Marketing Director, Miss Ma said, "People in Hong Kong are now more health conscious. Instead of focusing our business on fast food, we can diversify our business to the health food market. I propose to set up some organic food restaurants offering health food like fresh fruit juices, salads and sandwiches using organic ingredients. Unlike in our fast food chain, there would be waiters in these restaurants to serve the customers. I have conducted some preliminary studies and found that the middle-class should be our target customers. I have also generated many initial ideas on the menu and will conduct a market research to help sorting out those alternatives that are feasible."

Mr Lee said, "You have done a good job. However, are you sure that the middle-class is an effective market segment for us? Do we have enough capital to carry out this diversification project?"

Miss Ma remarked, "Based on the criteria for evaluating a market segment, the proposed segment is the most effective. Since the segment is new to us, we have to find ways to promote the organic food restaurants."

The Finance Director, Mr Fung responded, "Setting up such a new line of restaurants requires a substantial amount of capital. We will need at least \$100 million. As our group has used up almost all the retained earnings, we don't have enough capital for this project."

- (a) Suggest two risk management strategies for handling the risk of food poisoning faced by Yummy Group. (4 marks)
- (b) Give three types of data collection method that Miss Ma can use in conducting the market research. Explain each with an example. (6 marks)
- (c) With reference to the criteria for evaluating a market segment, explain why the middle-class is an effective market segment for organic food restaurants. (6 marks)
- (d) List three sources of capital for raising \$100 million to finance the setting up of the organic food restaurants. (3 marks)
- (e) With reference to any three elements of the promotion mix, suggest one way each to promote the organic food restaurants. (6 marks)

(Total: 25 marks)

8. Wing Hung is a locally-based department store chain established seventy years ago. Mr Richard Li, son of the founder, took over the business forty years ago. He is going to retire and plans to pass the business to his son, Raymond. He has asked Raymond to visit the stores and study the business.

After several store visits, Raymond reported his observations to Richard, "I think our employees lack initiative and their service quality fails to meet today's standard. It seems that they have to follow rigid rules in carrying out their duties."

Richard responded, "I do it this way on purpose. I believe that close supervision and motivation by money are the keys to our success. I pay them salaries at a higher rate than the market level. They are required to listen to my instructions and stick to the existing practices. You should follow my management style in order to be successful."

Raymond replied, "You may be right, maybe we can consider other monetary compensation methods to motivate our employees to perform better. We can also provide some training to enhance their quality of service. In addition, as on-line purchasing is very popular nowadays, we should launch an on-line shopping system. According to my estimation, the initial installation will cost \$12 million and the net cash flows would be \$4 million per year for a useful life of four years."

Richard replied, "Very good. The payback period of the project is short! We can get back the investment very quickly."

Raymond said, "Using the payback period method alone to evaluate the project is not appropriate, we need to calculate its net present value as well."

- (a) With reference to McGregor's Theory X and Theory Y, state three assumptions that Richard holds in relation to managing his employees. Illustrate each with an example. (6 marks)
- (b) Apart from providing above market level salaries, suggest three other types of monetary compensation methods that Wing Hung could adopt to motivate its employees to perform better. (6 marks)
- (c) With reference to two characteristics of service, give one reason each to explain why training can help Wing Hung to meet today's service standard. (4 marks)
- (d) (i) Calculate the payback period of the on-line shopping project. (1 mark)
- (ii) Give two reasons why it is not appropriate to use the payback period method to evaluate the on-line shopping project. (4 marks)
- (e) (i) Based on Raymond's estimates of the cash flows for the on-line shopping project, and assuming a discount rate of 8% per annum, calculate the net present value of the project (to the nearest dollar). Show your workings. (2 marks)
- (ii) According to your calculation in (e) (i), explain whether the project should be adopted. (2 marks)

(Total: 25 marks)

**SECTION C** (20 marks)

Answer **ONE** question in this section.

9. A retail chain uses accounting ratios and budget variance analysis to evaluate its performance.
- (a) Illustrate with examples what aspects of the retail chain's performance could be evaluated by accounting ratios. (12 marks)
  - (b) Explain the possible causes of budget variance in the retail chain. (8 marks)
- (Total: 20 marks)

10. As its product reaches the growth stage of the product life cycle, a company considers expanding its business and recruiting more managers internally.
- (a) Describe the characteristics of the growth stage of the product life cycle. (12 marks)
  - (b) Explain the advantages to the company of recruiting managers internally. (8 marks)
- (Total: 20 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.

### PAPER 1 Compulsory Part

#### SECTION A

Question No.	Key	Question No.	Key
1.	A (89%)	16.	C (85%)
2.	D (49%)	17.	B (72%)
3.	C (56%)	18.	B (49%)
4.	A (63%)	19.	C (69%)
5.	B (77%)	20.	D (80%)
6.	B (82%)	21.	C (57%)
7.	B (59%)	22.	A (49%)
8.	A (81%)	23.	A (72%)
9.	D (29%)	24.	B (42%)
10.	A (18%)	25.	B (72%)
11.	B (37%)	26.	D (47%)
12.	D (67%)	27.	A (60%)
13.	A (92%)	28.	C (58%)
14.	A (39%)	29.	D (65%)
15.	C (63%)	30.	B (89%)

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

#### SECTION B

##### *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. 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

### QUESTION 1

Marks

- (a) Benefits: 4
- defer payment: e.g. can purchase goods or services without paying cash instantly
  - safety: e.g. do not need to carry large amounts of cash
  - convenience: e.g. worldwide acceptance
  - privileges: e.g. can enjoy discounts or special gifts
- (2 marks for each relevant benefit, max. 4 marks)
- (b) Reasons: 2
- higher chance of collecting debt on time
  - lower default risk
- (2 marks for each relevant reason, max. 2 marks)

Total: 6 marks

### QUESTION 2

- External factors: 6
- technological, e.g. reliability of telecommunication system
  - social, e.g. language used by operators
  - economic, e.g. wages level, cross-border telephone charge
  - legal, e.g. labour law, licensing regulations
  - physical, e.g. geographical dispersion
  - political, e.g. political stability
- (2 marks for each relevant factor, max. 6 marks)

Total: 6 marks

### QUESTION 3

- (a) 3
- business entity concept
  - it assumes a business is separated from its owner
  - private transactions of the owner should not be recorded in the books of the business
  - the bookkeeper should record it as drawings in the books
- (1 mark for each relevant point, max. 3 marks)
- (b) 3
- historical cost principle
  - assets should be recorded at their cost of acquisition or production
  - subsequent changes in their market values are to be ignored
  - the bookkeeper should record \$12 000 as the cost of the notebook computer in the books
- (1 mark for each relevant point, max. 3 marks)

Total: 6 marks

### QUESTION 4

- Ways: 3
- store personnel data
  - handle payroll
  - take attendance
  - facilitate staff placement
- (1 mark for each relevant way, max. 3 marks)

Total: 3 marks





**PAPER 2B**  
**Business Management Module**

*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 3 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 marks	:	a relevant point or answer elaborated with illustration of how it is related to the given scenario

**SECTION A**

**QUESTION 1**

**Marks**

Uses:

6

- placement decision
  - identification of training needs
  - manpower planning
  - compensation adjustment
  - motivation
- (2 marks for each relevant use, max. 6 marks)

Total: 6 marks

**QUESTION 2**

Factors:

6

- character: e.g. whether the customer has a sense of responsibility to repay the debt
  - capacity: e.g. whether the customer has sufficient cash flows to meet the obligation
  - capital: e.g. whether the customer has sufficient capital to back up his debt
  - collateral: e.g. whether the customer has sufficient assets to secure the debt
  - conditions: e.g. industry outlook, general economic conditions
- (2 marks for each relevant factor, max. 6 marks)

Total: 6 marks

**QUESTION 3**

Marks

Reasons:

- losing existing customers means losing the lifetime value brought by these customers
- attracting a new customer usually costs more than retaining an existing one
- can do cross-selling more easily

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

4

Total: 4 marks

**QUESTION 4**

Progressive disciplinary actions:

- verbal warning
- written warning
- suspension
- discharge

(2 marks for each relevant action in sequence, max. 6 marks)

6

Total: 6 marks

**QUESTION 5**

Advantages:

- easier to cater for each region's needs
- quicker to respond to the local market
- more accurate assessment of each region's performance

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

4

Total: 4 marks

**QUESTION 6**

Reasons:

- spell out rights and responsibilities of buyer and seller: avoid misunderstandings
- legal status: remedies if breach of a contract
- govern actions: avoid disputes

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

4

Total: 4 marks

SECTION B

QUESTION 7

Marks

- (a) Risk management strategies: 4
- risk avoidance: e.g. avoid using easily infected food ingredients
  - risk reduction: e.g. source raw materials from reliable suppliers
  - risk transfer: e.g. take insurance to cover the losses resulting from food poisoning
  - risk assumption: e.g. assume the losses resulting from food poisoning
- (2 marks for each relevant strategy, max. 4 marks)
- (b) Methods: 6
- survey research, e.g. questionnaire
  - qualitative research, e.g. interview
  - observational research, e.g. on-site observation
  - experiments, e.g. taste tests
- (2 marks for each relevant method with correct example, max. 6 marks)
- (c) Criteria: 6
- purchasing power: e.g. middle-class customers have higher income
  - growth of the segment: e.g. middle-class customers become more health conscious
  - competition: e.g. no dominant competitor in the field serving the middle-class customers
  - distinctiveness: e.g. the market segment of middle-class is differentiable from other segments
- (2 marks for each relevant criterion, max. 6 marks)
- (d) Sources of capital: 3
- issue shares
  - issue long-term bond
  - borrow long-term loan
  - set up joint venture
- (1 mark for each relevant source, max. 3 marks)
- (e) Ways of promotion: 6
- advertising; e.g. advertising on TV, food magazine or websites
  - sales promotion: e.g. discounts, free gifts, lucky draw
  - public relations: e.g. grand opening, press conference, press release
  - personal selling: e.g. waiters recommend dishes to customers
- (2 marks for each relevant way, max. 6 marks)

Total: 25 marks



QUESTION 8

Marks

- (a) Theory X assumptions: 6
- people inherently dislike work, e.g. employees of Wing Hung lack initiative
  - people have little ambition and try to avoid responsibility, e.g. employees of Wing Hung follow instructions
  - people prefer to be led, e.g. close supervision by Richard
  - people prefer monetary rewards, e.g. above market level salary at Wing Hung
  - people want stability and resist to change, e.g. follow rigid rules
- (2 marks for each relevant assumption, max. 6 marks)
- (b) Other types of monetary compensation methods: 6
- commission
  - bonus
  - merit pay
  - profit-sharing
  - stock option
- (2 marks for each relevant type, max. 6 marks)
- (c) Reasons: 4
- intangibility: training helps to provide tangible signals of good service
  - heterogeneity: training helps to reduce variability of service
  - inseparability: training helps to equip employees with good interpersonal skills
  - perishability: training helps to enhance employees' adaptability in dealing with fluctuating demand
- (2 marks for each relevant reason, max. 4 marks)
- (d) (i) Payback period = \$12m/ \$4m = 3 years 1
- (ii) Reasons: 4
- ignore time value of money
  - fail to indicate the absolute worth of project
  - ignore the cash flows after the payback period
- (2 marks for each relevant reason, max. 4 marks)
- (e) (i)  $NPV = \left( \frac{4m}{1.08} + \frac{4m}{1.08^2} + \frac{4m}{1.08^3} + \frac{4m}{1.08^4} \right) - 12m$  1
- NPV = \$1 248 507 1
- (ii) Since the NPV is positive, the project should be adopted. 2

Total: 25 marks

**SECTION C**

**QUESTION 9**

**Marks**

- (a) – liquidity ratios: measures the chain's ability to repay short-term debts, e.g. current ratio, quick ratio 12
- debt management ratios/ solvency ratios: measures the chain's use of financial leverage, e.g. debt ratio, debt to equity ratio
- activity ratios/ management efficiency ratios: measure how efficiently the chain utilises its assets, e.g. inventory turnover, average collection period
- profitability ratios: measure the earning power of the chain, e.g. gross profit ratio, net profit margin
- (3 marks for each relevant point, max. 12 marks)

- (b) Possible causes: 8
- sales: e.g. keen competition, inappropriate merchandising
- inventories: e.g. wastage, change in prices, change in foreign exchange rates
- labour: e.g. change in wage rate and labour efficiency
- rental: e.g. change in rent level
- (3 marks for each relevant cause, max. 8 marks)

Total: 20 marks

**QUESTION 10**

- (a) Characteristics: 12
- high growth in sales
- begin to earn substantial profit
- drop in average cost
- competition becomes keener
- customers are early adopters
- (3 marks for each relevant characteristic, max. 12 marks)

- (b) Advantages: 8
- promotion-from-within policy is well-accepted by employees
- the company and the employees are familiar with each other
- lower recruitment cost and orientation cost
- higher motivation to existing employees
- (3 marks for each relevant advantage, max. 8 marks)

Total: 20 marks

**END OF PAPER 2B**