

香港中學文憑考試

Hong Kong Diploma of Secondary Education Examination

Business, Accounting and Financial Studies

2017 Question Papers

(with marking schemes and comments on candidates' performance)



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

The Examination

Objectives

The public assessment aims to assess candidates' abilities to:

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

Synopsis of curriculum contents

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

Mode of Assessment

The following table outlines the various components of the public assessment of BAFS in 2017 HKDSE:

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

Public Examination

Paper 1

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

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

Paper 2

Candidates will attempt either Paper 2A or 2B.

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

There will be three sections as follows:

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

Candidates are expected to be aware of the impact of standards issued by the Hong Kong Institute of Certified Public Accountants upon the accounting definitions and treatments covered by this curriculum. Standards newly issued or revised before **1 September 2014** are applicable to the examination.

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

8.30 am – 9.45 am (1 hour 15 minutes)

This paper must be answered in English

GENERAL INSTRUCTIONS

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

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)

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

1. Which of the following statements about Asia-Pacific Economic Cooperation is/are correct?
- (1) It settles trade disputes in the Asia-Pacific region.
 - (2) It promotes sustainable economic growth in the Asia-Pacific region.
 - (3) It encourages cooperation on trade and investment in the Asia-Pacific region through high-level government-to-government dialogues.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
2. Assume that no account balance is missing from a trial balance. If the total of the debit balances and the total of the credit balances of the trial balance are not equal, it means that _____.
- (1) one or more ledger balance(s) in the trial balance is/are wrong
 - (2) the statement of financial position will not balance
 - (3) the net profit in the income statement will be wrong
- 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 statements about the Hang Seng Index is **not** correct?
- A. Its sub-indexes are: Finance, Utilities, Properties, and Commerce and Industry.
 - B. It measures the performance of the largest and most liquid companies listed in Hong Kong.
 - C. It includes 50 stocks listed on the Growth Enterprise Market.
 - D. It serves as a benchmark of the general performance of the Hong Kong stock market.
4. Which of the following statements about business management are correct?
- (1) Under the unity of command principle, each employee only receives orders from one superior.
 - (2) A tall organisation has more layers than a flat organisation.
 - (3) Communication between superiors and subordinates can be improved by adopting Management by Objectives.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
5. In the accounting cycle, which of the following steps comes immediately after the preparation of a trial balance?
- A. preparing financial statements
 - B. making period-end adjustments
 - C. posting entries to the ledgers
 - D. recording transactions in the books of original entry

6. Which of the following statements about the trade relationship between Hong Kong and the Mainland are correct?
- (1) Hong Kong is the largest trading partner of the Mainland.
 - (2) In terms of the value of goods, the Mainland is the largest re-export destination of Hong Kong.
 - (3) Many goods originating in Hong Kong exported to the Mainland are tariff-free.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
7. Anna is 62 years old and works as a part-time consultant in a firm, with a monthly salary of \$40 000. Under the Mandatory Provident Fund System, what will be the amount Anna contributes each month?
- A. \$4000
 - B. \$2000
 - C. \$1500
 - D. \$0
8. Which of the following tasks is/are performed by the information management department of a company?
- (1) designing a file storage system for the training records of the human resources department
 - (2) assisting the marketing department to process market research data
 - (3) preparing the budget for the finance department
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
9. If an account has a debit balance, which of the following statements about the account is correct?
- A. The total amount of the debit side in the account is higher than the total amount of the credit side.
 - B. The balance carried down appears on the debit side of the account.
 - C. The balance brought down appears on the right hand side of the account.
 - D. The account is an asset account.
10. Mr Lee is going to deposit an amount into a savings account with interest of 7% per year, compounded annually. He wants to receive a sum of \$150 000 from the account after 3 years. How much should he put into the savings account now?
- A. \$120 654
 - B. \$122 445
 - C. \$131 016
 - D. \$183 756

11. Compared to a sole proprietorship, which of the following is/are the advantage(s) of a limited company?

- (1) the business will not be closed upon withdrawal or death of the owner(s)
- (2) the setup cost is lower
- (3) the profits tax rate is lower

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

12. Chan Kee and Yip Kee are trading firms in the same industry. Their gross profit ratios and net profit ratios for the year 2016 are shown below:

	Chan Kee	Yip Kee
Gross profit ratio	39%	45%
Net profit ratio	24%	20%

Based on the above ratios, which of the following can be concluded?

- A. Yip Kee has a higher sales amount.
- B. Yip Kee has a higher cost of goods sold.
- C. Chan Kee has a higher net profit.
- D. Chan Kee has better control over operating expenses.

13. If the nominal rate of return remains unchanged, which of the following statements about the effective rate of return are correct?

- (1) Effective rate of return reflects the actual return on an investment.
- (2) Effective rate of return will be higher if the amount of the principal increases.
- (3) Effective rate of return will be higher if the frequency of compounding increases.

- 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 illustrate the importance of entrepreneurship in business development?

- (1) reduce business risks
- (2) promote economic growth
- (3) encourage innovation

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

15. Which of the following is **not** a use of financial statements?

- A. assist different users in making decisions
- B. provide information about the financial position of a business
- C. provide information to employees for assessing their job security
- D. provide qualitative information regarding the performance of a business

16. Which of the following is/are physical factor(s) that might affect businesses in Hong Kong?
- (1) climatic condition
 - (2) air quality
 - (3) population structure
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
17. The following are the basic listing requirements for new applicants to list their stocks on the Main Board of the Stock Exchange of Hong Kong except _____.
- A. size of workforce
 - B. amount of cash flow
 - C. history of operation
 - D. profit attributable to shareholders
18. From the point of view of a franchisor, which of the following is/are the shortcoming(s) of running a business in the form of franchising?
- (1) Franchisee may set up his own business to become a competitor.
 - (2) It is difficult to wholly control the operation style of franchisee(s).
 - (3) If a franchisee manages his business poorly, the reputation of the whole franchise business will be affected.
- A. (1) only
 - B. (1) and (2) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
19. Mr Wong set up a firm on 1 January 2017. He introduced his motor van of \$40 000 into the firm. The firm borrowed \$200 000 from Mr Wong's relatives to purchase office equipment and \$100 000 from bank for the business operation.
- What are the amounts of the firm's assets, liabilities and capital on 1 January 2017?
- | | <u>Assets</u> | <u>Liabilities</u> | <u>Capital</u> |
|----|---------------|--------------------|----------------|
| | \$ | \$ | \$ |
| A. | 240 000 | 200 000 | 40 000 |
| B. | 40 000 | 300 000 | 340 000 |
| C. | 340 000 | 100 000 | 240 000 |
| D. | 340 000 | 300 000 | 40 000 |
20. Which of the following statements about small and medium enterprises (SMEs) in Hong Kong are correct?
- (1) The majority of businesses in Hong Kong are SMEs.
 - (2) The forms of business ownership of SMEs are either sole proprietorship or partnership.
 - (3) SMEs are usually managed by their owners.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

Based on the following information, answer Questions 21 and 22.

As at 31 December 2016, Wong's firm had the following assets and liabilities:

	\$
Non-current assets	280 000
Bank	18 000
Cash	58 000
Inventory	71 000
Trade payables	86 000
Trade receivables	162 000
Long term bank loan	120 000

21. What is the quick ratio of Wong's firm for 2016?
- A. 1.16 : 1
 - B. 2.77 : 1
 - C. 3.59 : 1
 - D. 6.02 : 1
22. What is the amount of working capital in Wong's firm as at 31 December 2016?
- A. \$103 000
 - B. \$152 000
 - C. \$223 000
 - D. \$503 000
23. Which of the following are the benefits for a borrower of maintaining a good personal credit record?
- (1) lower interest rate on personal loan
 - (2) higher credit limit
 - (3) better terms when opening a term deposit account
- 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 statements about 'unity of direction' is correct?
- A. Each supervisor is responsible for one project at a time.
 - B. Each employee works towards one goal in each period.
 - C. Employees working on the same project have the same goal.
 - D. The goals of a business should be accomplished within a reasonable timeframe.
25. Which of the following descriptions about accounting assumptions, principles and conventions is correct?
- A. Historical cost: all business transactions should be recorded in the books
 - B. Business entity: a sole proprietor can record his personal spending in the books of his business
 - C. Consistency: the accounting policies and methods cannot be changed once adopted
 - D. Going concern: a business will continue in operation for the foreseeable future

26. Which of the following will affect the share price of a listed company selling motorcars?

- (1) fuel price
- (2) interest rate
- (3) dividend policy of the company

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

27. Which of the following is **not** an advantage of adopting democratic leadership for a business?

- A. enhance operational efficiency
- B. widen managers' exposure
- C. strengthen staff support for business policies
- D. improve mutual understanding between management and staff

28. Which of the following double entries is/are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	Settled a trade debt by cheque	Trade payables	Bank
(2)	Sold the office furniture of the firm on credit	Trade receivables	Sales
(3)	Paid carriage expenses for delivering goods to customers in cash	Carriage outwards	Cash

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

29. Which of the following statements about accounting ratios is/are correct?

- (1) They are used to evaluate the financial results of a business.
- (2) For the calculations of all profitability ratios, the denominator is 'Sales'.
- (3) The acid-test ratio of a firm is higher than its current ratio.

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

30. Which of the following statements about a nominal partner is/are correct?

- (1) He is liable for the debts of the partnership.
- (2) He takes part in the operation of the partnership.
- (3) His reputation helps promote the partnership's businesses.

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

END OF SECTION A

SECTION B (30 marks)

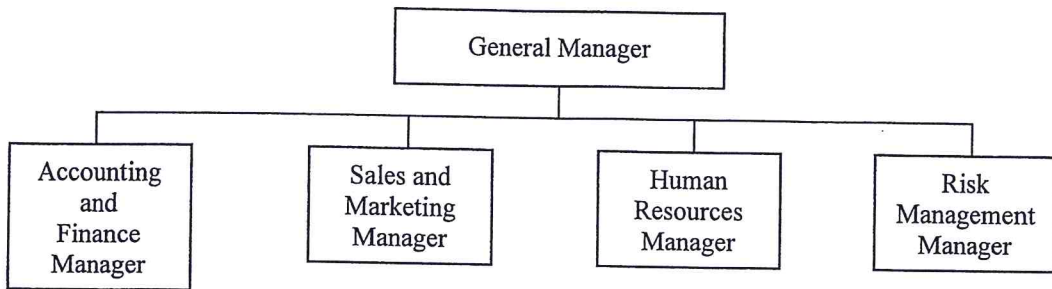
Part 1 (20 marks) Answer **ALL** questions in this part.

1.
 - (a) What is a joint venture? (1 mark)
 - (b) Outline two advantages of running a business in the form of a joint venture. (4 marks)

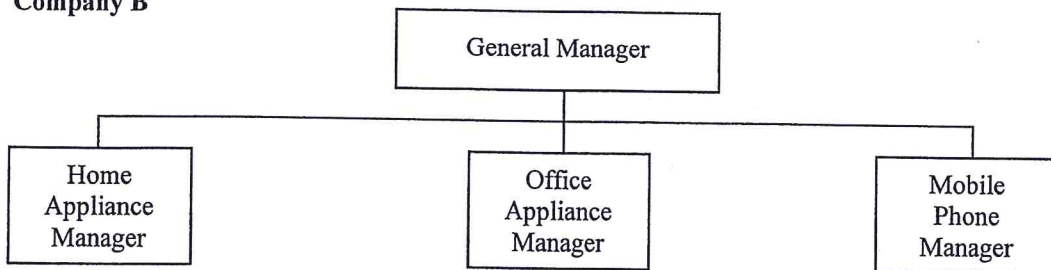
2. Mary has just retired and received her retirement fund. A financial planner advised her to invest the retirement fund in various financial instruments.
 - (a) Explain two of Mary's financial needs after her retirement. (4 marks)
 - (b) As an investor, what responsibilities does Mary have? List any two. (2 marks)

3. Company A and Company B are retail businesses selling electrical appliances. Their organisation charts are as follows:

Company A



Company B



- (a) State the form of departmentalisation adopted by the two companies:
- (i) Company A
 - (ii) Company B
- (2 marks)
- (b) Which of the General Managers of the two companies above has a wider span of control?
- (1 mark)

Recently, the warehouse of Company A caught fire, which led to substantial losses.

- (c) Which department of Company A should be responsible for claiming insurance compensation? Explain one main role of this department in the company.
- (3 marks)

The financial year of Company B ends on 31 December. On 4 January 2017, Company B received an electricity bill for December 2016 of \$9500. It then settled the bill on 29 January 2017.

- (d) Explain, with a relevant accounting principle or concept, in which year the electricity of \$9500 should be recorded as an expense.
- (3 marks)

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

Based on the following information, answer either **Question 4** or **5**.

John commenced a firm selling grocery and household products on 1 January 2016. Three employees were hired for the operation of the firm.

The following balances were obtained from his books as at 31 December 2016:

	\$
Capital, 1 January 2016	240 000
Bank overdraft	173 400
Furniture	204 000
Sales	796 200
Purchases	500 400
Returns inwards	1 800
Returns outwards	1 500
Discounts received	2 100
Operating expenses	507 000

Answer **ONE** question.

4. (a) Prepare for John's firm a trial balance as at 31 December 2016. (5 marks)
- (b) What is business ethics? (1 mark)
- (c) For each of the following stakeholders, illustrate with one example how John can ensure that the operation of his firm is socially responsible:
- (i) employees of the firm (2 marks)
- (ii) residents living around the firm (2 marks)
- (Total: 10 marks)

5. The inventory as at 31 December 2016 was valued at \$195 000.
- (a) Prepare for John's firm an income statement for the year ended 31 December 2016. (5 marks)

A business consultant advised John to set goals for his firm.

- (b) State the management function that the task of setting goals for John's firm belongs to. (1 mark)
- (c) Explain two reasons why John should set goals for his firm. (4 marks)

(Total: 10 marks)

END OF PAPER

Marking Schemes

This document was prepared for markers' reference. It should not be regarded as a set of model answers. Candidates and teachers who were not involved in the marking process are advised to interpret its content with care.

General Notes on Marking

1. Teachers are strongly advised to conduct their own internal standardisation procedures using the marking scheme before the actual marking begins. After standardisation, teachers should adhere to the marking scheme to ensure a uniform standard of marking within the school.
2. The marking scheme may not exhaust all possible answers for each question. Teachers should exercise their professional discretion and judgment in accepting alternative answers that are not in the marking scheme, but are correct and well-reasoned.
3. In questions asking for a specified number of reasons or examples etc., and a student gives more than the required number, the extra answers should not be marked. For instance, in a question asking students to provide two examples, and a student gives three answers, only the first two should be marked.
4. The general guidelines for points which are awarded 0 mark 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 / 3 marks : a relevant point or answer with a brief explanation of the concept/key words and/or illustration of how it is related to the given scenario

PAPER 1

SECTION A

Question No.	Key	Question No.	Key
1.	C (42%)	16.	B (61%)
2.	A (38%)	17.	A (56%)
3.	C (62%)	18.	D (61%)
4.	D (71%)	19.	D (73%)
5.	B (47%)	20.	B (68%)
6.	C (54%)	21.	B (74%)
7.	C (35%)	22.	C (70%)
8.	B (79%)	23.	A (60%)
9.	A (51%)	24.	C (64%)
10.	B (90%)	25.	D (80%)
11.	A (82%)	26.	D (57%)
12.	D (75%)	27.	A (57%)
13.	B (55%)	28.	B (65%)
14.	C (77%)	29.	A (69%)
15.	D (40%)	30.	C (82%)

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

SECTION B PART 1

QUESTION 1

Marks

- (a) Joint venture:
– two or more businesses form a new business entity to carry out joint project(s) 1
- (b) Advantages:
– more capital/resources can be contributed by joint venture partners
– business risks can be shared among joint venture partners
– easier entry into new market: joint venture partners know local market well/have local connections
– can bring in expertise/goodwill of different joint venture partners
– can enjoy economies of scale
(2 marks for each relevant advantage, maximum 4 marks) Max 4

5 marks

QUESTION 2

Marks

- (a) Financial needs:
– paying daily expenses to maintain her living
– meeting contingencies, e.g. urgent medical expenses
– estate planning, e.g. funeral expenses
(2 marks for each relevant need, maximum 4 marks) 4
- (b) Responsibilities:
– understanding the terms of the investment contract before signing it
– checking account statements and transaction documents
– understanding the characteristics and the risks of the investment instruments involved
(1 mark for each relevant responsibility, maximum 2 marks) 2

6 marks

QUESTION 3

Marks

- (a) (i) Company A: departmentalisation by function 1
(ii) Company B: departmentalisation by product 1
- (b) General Manager of Company A 1
- (c) Risk Management Department 1
Main role: 2
– identifying the possible risks the business is exposed to
– formulating risk management strategies to manage the risks
(2 marks for each relevant role, maximum 2 marks)
- (d) – 2016 1
– accrual concept 1
– revenues and expenses are recognised when they are earned or incurred and are included in the financial statements of that year 1

9 marks

PART 2

QUESTION 4

Marks

(a)

John			
Trial balance as at 31 December 2016			
	Dr	Cr	
	\$	\$	
Capital, 1 January 2016		240 000	0.5
Bank overdraft		173 400	0.5
Furniture	204 000		0.5
Sales		796 200	0.5
Purchases	500 400		0.5
Returns inwards	1 800		0.5
Returns outwards		1 500	0.5
Discounts received		2 100	0.5
Operating expenses	507 000		0.5
	1 213 200	1 213 200	(5)

- (b) Business ethics: 1
- the moral principles, values and beliefs which govern the behaviours of a business
- (c) (i) employees of the firm: 2
- providing fair and reasonable remuneration
 - providing a safe and pleasant working environment
- (2 marks for each explanation, max. 2 marks)
- (ii) residents living around the firm 2
- disposing of litter and waste appropriately
 - sponsoring community activities
- (2 marks for each explanation, max. 2 marks)

10 marks

QUESTION 5

Marks

(a)

John			
Income statement for the year ended 31 December 2016		}	
	\$	\$	
Sales		796 200	0.5
Less: Returns inwards		1 800	0.5
		794 400	
<u>Less: Cost of goods sold</u>			
Purchases	500 400		0.5
Less: Returns outwards	1 500		0.5
	498 900		
Less: Closing inventory	195 000	303 900	0.5
Gross profit		490 500	0.5
Add: Discounts received		2 100	0.5
		492 600	
Less: Operating expenses		507 000	0.5
Net loss		(14 400)	0.5

- (b) Management function:
- planning 1
- (c) Reasons: 4
- to help capture opportunities and deal with challenges
 - to provide direction to his staff
 - to provide standards for monitoring work progress
- (2 marks for each relevant reason, maximum 4 marks)

10 marks

END OF PAPER 1

Candidates' Performance

There were 11 507 candidates for the Business, Accounting and Financial Studies examination this year: 8317 candidates chose the Accounting Module and 3190 chose the Business Management Module. Approximately 54% of candidates sat the English papers.

Paper 1

Section A

There were 30 multiple-choice questions in this section. The mean score was 38 out of 60 marks for this section.

The percentage correct was lowest overall in the following questions:

1. Which of the following statements about Asia-Pacific Economic Cooperation is/are correct?
- (1) It settles trade disputes in the Asia-Pacific region.
 - (2) It promotes sustainable economic growth in the Asia-Pacific region.
 - (3) It encourages cooperation on trade and investment in the Asia-Pacific region through high-level government-to-government dialogues.
- A. (1) only (4%)
B. (1) and (2) only (23%)
*C. (2) and (3) only (42%)
D. (1), (2) and (3) (31%)

Many candidates were not familiar with the role and functions of Asia-Pacific Economic Cooperation.

2. Assume that no account balance is missing from a trial balance. If the total of the debit balances and the total of the credit balances of the trial balance are not equal, it means that _____.
- (1) one or more ledger balance(s) in the trial balance is/are wrong
 - (2) the statement of financial position will not balance
 - (3) the net profit in the income statement will be wrong
- *A. (1) and (2) only (38%)
B. (1) and (3) only (15%)
C. (2) and (3) only (4%)
D. (1), (2) and (3) (43%)

Many candidates ignored the fact that some account balances in a trial balance are shown in the statement of financial position only but not the income statement, so errors in these balances would not affect the net profit figure.

7. Anna is 62 years old and works as a part-time consultant in a firm, with a monthly salary of \$40 000. Under the Mandatory Provident Fund System, what will be the amount Anna contributes each month?
- A. \$4000 (8%)
 - B. \$2000 (43%)
 - *C. \$1500 (35%)
 - D. \$0 (14%)

Many candidates failed to take the ceiling for contributions to the Mandatory Provident Fund into account.

15. Which of the following is **not** a use of financial statements?
- A. assist different users in making decisions (6%)
 - B. provide information about the financial position of a business (4%)
 - C. provide information to employees for assessing their job security (50%)
 - *D. provide qualitative information regarding the performance of a business (40%)

Many candidates failed to recognise that employees are also users of financial statements and how financial statements are useful to employees.

Section B

Part 1

Question Number	Performance in General
1 (a)	Poor. Candidates were unable to give a full explanation of what a joint venture is. Most of them missed the meanings of 'separate entity' and/or 'joint project(s)'.
(b)	Satisfactory. Most candidates were able to state the advantages of running a business in the form of a joint venture.
2 (a)	Fair. Many candidates were able to list Mary's financial needs. However, many failed to offer appropriate explanations and/or examples. Some candidates stated the needs of an investor instead of someone who has retired.
(b)	Fair. Many candidates were able to list Mary's responsibilities as an investor. However, some candidates wrongly listed her rights as an investor instead. Some gave the responsibilities of the financial planner as answers.
3 (a)	Good. Most candidates were able to state the form of departmentalisation of the two companies.
(b)	Very good. Most candidates were able to identify the General Manager, who has a wider span of control.
(c)	Fair. Many candidates were able to name the 'risk management department' but some failed to explain its main role.
(d)	Good. Many candidates were able to identify the accrual concept and show that the electricity expense should be recorded in 2016. However, some candidates failed to explain the accrual concept accurately.

Part 2

Question Number	Popularity	Performance in General
4 (a)	47%	Very good. Most candidates were able to compile a correct trial balance. However, some of them did not show the format properly. The column headers of Dr and Cr and/or the dollar signs were missing.
(b)		Poor. Most candidates failed to explain the meaning of business ethics. Some of them mistakenly gave the meaning of social responsibilities instead.
(c)(i)		Poor. Candidates were unable to give an appropriate example. Many of them mistakenly quoted measures required by the law, e.g. minimum wage
(ii)		Poor. Many candidates failed to refer to the case scenario and gave examples related to a production plant instead of a grocery store. Some candidates quoted examples of marketing strategies instead of social responsibilities.
5 (a)	53%	Very good. Most candidates produced a correct income statement with correct net loss figure. However, in the calculation of cost of goods sold, some of them mistakenly took the opening capital as opening inventory while some missed out the closing inventory.
(b)		Satisfactory. Most candidates stated the management function of 'Planning', but some gave 'Management by Objective' and 'Unity of Direction' as answers.
(c)		Poor. The reasons for setting goals for John's firm were not well explained. Quite a number of candidates mentioned the advantages of Management by Objective as answers.

General comments and suggestions

Candidates were weak in questions requiring the application of knowledge and analysis of information, and they were unable to give appropriate elaboration on their answers. Many candidates did not seem to have studied carefully the information in, and the requirements of, the questions. Answers just presented textbook materials which were irrelevant to the questions. Some gave answers for similar questions set in previous papers.

Candidates are encouraged to pay attention to issues in the business world and take part in case discussions in class so that they use their business knowledge and skills to tackle real business problems.

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

10.30 am – 12.45 pm (2 hours 15 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**.

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

SECTION A (24 marks)

Answer **ALL** questions in this section.

1. (a) Define pure risk and speculative risk. (2 marks)
- (b) Briefly explain two types of liability insurance a theme park should take out. (4 marks)

2. Explain any three components of the '5Cs' of the credit standard that a bank considers when deciding whether to grant credit to a borrower. (6 marks)

3. Outline three objectives of providing training to the drivers of a transportation company. (6 marks)

4. With reference to any three elements of the marketing mix, suggest one way in which each can be used to market a product in the decline stage of the product life cycle. (6 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

5. Marco is the owner in the form of a sole proprietorship of an eyewear retail chain, selling different brands of glasses. Currently, the chain has 11 retail stores all over Hong Kong, and has 30 administrative staff and 60 salespersons. To grasp the opportunity offered by market expansion, Marco wants to open more branches in the coming five years. He is considering various ways to finance his expansion plan.

In a meeting, Daisy, the Marketing Manager reported, 'According to research, the market demand for eyewear is increasing. Customers are more willing to spend money on trendy and high class eyewear. We have already put more resources into advertising in the past three months. I believe that this marketing strategy has helped bring in new customers.'

David, the Finance Manager agreed, 'With increased advertising, our sales have increased substantially.'

John, the Human Resources Manager responded, 'I am pleased to know that the sales performance has improved. However, our recent staff appraisals show that many salespersons are not satisfied with their jobs. In fact, their salary level is higher than the market rate. We have also offered long-term employment contracts and comprehensive benefits to them. We may need to find other ways to improve their morale.'

Marco asked, 'Besides enhancing salespersons' morale, what else can we do to further increase sales?'

Daisy replied, 'Many companies have started implementing a customer relationship management (CRM) system to help increase sales to existing customers. Shall we also introduce a CRM system to achieve this goal?'

John added, 'If we decide to adopt a CRM system, then we have to recruit a manager to lead this new project. We may consider appointing the customer relationship manager through internal promotion.'

- (a) List three types of methods that Marco could use to finance his five-year expansion plan. Give one disadvantage of each of them. (6 marks)
- (b) With reference to Maslow's Hierarchy of Needs Theory, explain two levels of needs which Marco's retail chain may not currently satisfy for its salespersons. (4 marks)
- (c) Give two reasons why customer relationship management could help increase sales to existing customers. (4 marks)
- (d) Outline two limitations of appointing a customer relationship manager through internal promotion. (4 marks)

(Total: 18 marks)

6. King's Restaurant, an international catering chain, has been operating in Hong Kong for a few decades. Its market position is to provide customers with innovative catering services at an affordable price. Its sales and profits have been growing steadily. However, the chain has recently been troubled by complaints about its deteriorating service quality.

In a meeting, May, the Marketing Manager said, 'We are facing keen competition in the catering industry, so it is important to maintain our service quality. However, we have received complaints from customers that the dining environment is unpleasant and some waiters are rude. Sometimes customers need to wait for a long time to be served.'

The Finance Manager, Simon, responded, 'Our revenue is growing at a decreasing rate, and improving our service quality will certainly boost sales.'

The Information Technology Manager, Danny, suggested, 'Some restaurants in other countries have started using robots to take orders and deliver dishes to customers. We should conduct a feasibility study on the introduction of this technology.'

May said, 'I agree with adopting the robotic system as it can provide innovative service which matches our market position. We could do market research to explore whether customers would accept robot service in general. I suggest sending questionnaires to all customers in our membership scheme to collect their views on a robotic system.'

The Managing Director, Peter, queried the reliability of the information collected from questionnaires. He wanted to examine the project's feasibility from the financial perspective.

After the meeting, Simon estimated that the initial outlay for the robotic system would be \$4 000 000, with a project life of 3 years. The cost of capital would be 6%. Taking into consideration the annual expenses incurred and savings in labour costs, the net cash flow generated by the robotic system would be \$1 420 000 per year.

- (a) With reference to any three characteristics of service, explain how King's Restaurant can solve the problems with its service quality. (6 marks)
- (b) Outline two limitations of sending questionnaires to all customers in the membership scheme to explore whether customers generally accept robot service. (4 marks)
- (c) Based on Simon's financial estimates,
- (i) calculate the payback period of the robotic system (round to 2 decimal places). (2 marks)
- (ii) calculate the net present value of the robotic system (round to an integer). (2 marks)
- (d) Based on the net present value calculated in (c)(ii) above, explain whether the robotic system project should be accepted. (2 marks)
- (e) Other than the payback period method and the net present value method, suggest and explain one other capital investment appraisal method for evaluating the robotic system project. (2 marks)

(Total: 18 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

7. An airline company is considering enhancing the fringe benefits of its employees. In order to investigate the financial affordability of this measure, the company uses accounting ratios to evaluate its performance.

(a) Describe the aspects of the airline company's performance that could be evaluated using accounting ratios. (8 marks)

(b) Illustrate with examples the purposes of providing fringe benefits to the employees of an airline company. (12 marks)

(Total: 20 marks)

8. The marketing manager of a fashion chain is going to formulate a marketing plan. The buying behaviour of the customers is his major concern.

(a) Describe the steps in formulating a marketing plan for the fashion chain. (8 marks)

(b) Illustrate with examples the socio-cultural factors and psychological factors affecting the buying decisions of the fashion chain's customers. (12 marks)

(Total: 20 marks)

END OF PAPER

PAPER 2B
Business Management Module

SECTION A

QUESTION 1

Marks

- (a) – pure risk involves only the possibility of loss or no loss 1
– speculative risk involves the possibilities of both gain as well as loss 1
- (b) Liability insurance: 4
– public liability insurance: e.g. protecting the theme park against accidental injury or loss of personal belonging of the visitors
– employees' compensation insurance: e.g. protecting the theme park against insurance claims arising from injury to their employees at work
(2 marks for each type of insurance, max. 4 marks)

6 marks

QUESTION 2

Marks

Factors:

6

- capital: whether the borrower has sufficient capital to back up his debt
 - capacity: whether the borrower has the ability to meet the obligation
 - collateral: whether the borrower has sufficient assets to secure the debt
 - character: whether the borrower has a sense of responsibility to repay the debt
 - condition: general economic environment
- (2 marks for each relevant factor, max. 6 marks)

6 marks

QUESTION 3

Marks

Objectives:

6

- to avoid accidents: e.g. by improving driving skills and enhancing safety consciousness
 - to improve the quality of service: e.g. by enhancing drivers' communication skills and manners with customers
 - to improve efficiency: e.g. by better equipping drivers with the skills and techniques required/ making sure drivers are familiar with the routes, roads and traffic regulations
- (2 marks for each relevant objective, max. 6 marks)

6 marks

QUESTION 4

Marks

Ways:

6

- price: e.g. cutting prices to stimulate sales
 - product: e.g. phasing out weak/unpopular product items
 - place: e.g. phasing out unprofitable distribution channel members
 - promotion: e.g. minimising promotional expenses and focusing on retaining loyal customers
- (2 marks for each relevant way, max. 6 marks)

6 marks

SECTION B
QUESTION 5

Marks

(a)

6

Method	Disadvantage
– self-finance: e.g. Marco can invest more capital in his business or use his profits for the expansion	– limited source of funds, the amount of funds raised is lower than through other methods
– setting up a partnership: e.g. Marco can invite business partners to contribute capital	– difficult to find suitable partners/joint decisions/less flexibility
– setting up a private limited company: e.g. inviting friends or relatives to become shareholders of his business	– complicated and costly setup procedure
– long term debt: e.g. borrowing from friends, the bank or other financial institutions	– fixed obligation to repay interest and principal

(1 mark for each method and 1 mark for the relevant disadvantage, max. 6 marks)

(b) Needs:

4

- social needs: need for interaction and communication with other people, e.g. relationships with colleagues and customers, sense of belonging to the retail chain
- esteem/ego needs: need for recognition of achievement and contribution, e.g. autonomy, appreciation, recognition, respect
- self-actualization needs: desire to realise his full potential and talents to achieve, e.g. by having a challenging job, career advancement, self-development

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

(c) Reasons:

4

- to understand more the needs and requirements of existing customers and provide better marketing strategy
- to facilitate cross-selling
- to enhance loyalty of existing customers

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

(d) Limitations:

4

- affecting the morale of candidates not promoted
- creating unhealthy competition among the staff of the chain
- limited source of new ideas and skills

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

18 marks

QUESTION 6

Marks

- (a) Characteristics: 6
- intangibility: e.g. being able to use tangible clues and physical evidence, such as providing a clean dining environment, maintaining waiters' professional look
 - inseparability: e.g. providing training to waiters to improve their interpersonal skills and service manners
 - perishability: e.g. handling fluctuating demand flexibly and reducing waiting time by using a reservation system or hiring part-time waiters
 - heterogeneity: e.g. using an instructional manual and standardised procedures to take food orders and maintaining service consistency
- (2 marks for each relevant characteristic, max. 6 marks)
- (b) Limitations: 4
- less in-depth information
 - difficult to control the response rate
 - limited and biased sample as it could not include other restaurants' customers/non-members
- (2 marks for each relevant limitation, max. 4 marks)
- (c) (i) Payback period: 2
- \$4 000 000/ \$1 420 000
= 2.82 years
- (ii) Net present value: 2
- $(\frac{\$1\,420\,000}{1.06^1} + \frac{\$1\,420\,000}{1.06^2} + \frac{\$1\,420\,000}{1.06^3}) - \$4\,000\,000$
= -\$204 323
- (d) - the NPV is negative, so the robotic system project should not be accepted 2
- (e) Methods: 2
- accounting rate of return: the average annual net profit earned from the project per dollar of investment
 - internal rate of return: the discount rate at which the net present value of the project is zero
- (2 marks for each relevant method, max. 2 marks)

18 marks

SECTION C

QUESTION 7

Marks

- (a) Aspects:
- profitability: evaluate the income-generating power/earning power of the airline company (e.g. gross profit ratio, net profit ratio, return on capital employed)
 - liquidity: evaluate the ability of the airline company to repay short-term debts using its current assets (e.g. current ratio, liquid ratio)
 - solvency: evaluate the financial leverage and gearing of the airline company (e.g. gearing ratio)
 - management efficiency: evaluate how efficiently the airline company utilises its assets and resources (e.g. trade receivables turnover, trade payables turnover, total assets turnover)
- (2 marks for each relevant description, max. 8 marks)

8

- (b) Purposes:
- to comply with legal requirements: e.g. rest days, Mandatory Provident Fund and statutory holidays
 - to build an image as a good employer: e.g. award of 'employer of choice'
 - to satisfy employees' security and social needs: e.g. provide insurance and organise recreational activities
 - to enhance employees' loyalty: e.g. airlines' staff discounts, training subsidies
- (3 marks for each relevant purpose, max. 12 marks)

12

20 marks

QUESTION 8**Marks**

(a) Steps:

8

1. review current performance and conduct situational analysis: e.g. conduct a SWOT analysis
2. set marketing objectives: e.g. increase in market share, profit maximisation, etc.
3. select target markets: e.g. understand the buying behaviours of different market segments and choose the most suitable target market
4. formulate marketing strategies: e.g. targeting and positioning (e.g. market leader, market challenger, market follower or market nicher) which help maintain and enhance the fashion chain's competitive position

(2 marks for each relevant step in correct sequence, max. 8 marks)

(b) Factors:

12

Socio-cultural factors:

- culture: e.g. beliefs, values and customs (including race, religion, geographical location and age)
- social class: e.g. occupation, education and income
- reference group: i.e. direct reference group (e.g. friends, family members, colleagues) and indirect reference group (e.g. celebrities)

Psychological factors:

- perception: e.g. what determines how customers process the stimuli (e.g. country of origin, texture and quality, package) to which they are exposed to
- learning: e.g. changes in behaviour through experience (e.g. poor quality of clothing bought from the shop previously would hinder the customers to come again)
- belief and attitude: e.g. feelings towards the brand
- personality and self-concept: e.g. customers' choosing clothing which can reflect their identities and characters (e.g. conservative/open-minded/trendy)

(3 marks for each relevant factor, max. 12 marks)

20 marks**END OF PAPER 2B**

Paper 2B (Business Management Module)

Section A

Question Number	Performance in General
1	(a) Satisfactory. Most candidates were able to define pure risk and speculative risk. (b) Poor. Many candidates were able to state and explain the areas in which liabilities could arise but some were not able to name the liability insurance precisely.
2	Fair. Many candidates were able to state three components of the '5C', but they were not able to give a clear explanation of each component.
3	Satisfactory. Most candidates were able to state and explain three objectives of providing training to the drivers of a transportation company though some explanations could be clearer.
4	Good. Most candidates were able to suggest accurately one way in which any three elements of the marketing mix can be used to market a product in the 'decline' stage of the product life cycle.

Section B

Question Number	Performance in General
5	(a) Poor. Many candidates failed to list the appropriate types of financing methods for a sole proprietorship, e.g. some suggested an issuance of ordinary share. (b) Good. Most candidates were able to state the correct levels of needs. However, some candidates mixed up 'esteem needs' and 'self-actualization needs' in their explanation. (c) Satisfactory. Most candidates were familiar with the concepts of customer relationship management. However, some candidates only stated the advantages without explaining how customer relationship management helps increase sales to existing customers. (d) Satisfactory. Most candidates were able to outline the limitations of internal promotions.
6	(a) Fair. Many candidates were able to give the characteristics of service with relevant solutions to the problems. Some candidates mixed up the solutions for the issues of heterogeneity and inseparability. (b) Fair. Some candidates only focused on the limitations of questionnaire design but neglected the issues associated with the process of using questionnaire to research customers' attitude as described in the question. (c) Satisfactory. Most candidates were able to calculate the payback period and the net present value of the project. (d) Very good. Most candidates were able to give a correct judgement according to their answer in (c)(ii) above. (e) Poor. Only a few candidates were able to give and explain another capital investment appraisal method.

Section C

Question Number	Popularity	Performance in General
7	48%	(a) Satisfactory. Most candidates were able to describe the four aspects of accounting ratios can be used to evaluate the airline company's performance. They showed a good understanding of the ratios and explained clearly each aspect with relevant illustration. Some candidates failed to mention all four aspects of accounting ratios or wrongly interpreted solvency/gearing ratios.
		(b) Fair. Many candidates were able to illustrate, with appropriate examples, the purposes of providing fringe benefits to the employees of an airline company. However, some candidates failed to provide sufficient examples and gave irrelevant explanations.
8	52%	(a) Poor. Some candidates were able to describe the steps in formulating a marketing plan for the fashion chain. They provided a detailed explanation in the required context. However, some candidates were unable to demonstrate a good understanding of the steps. Quite a number of candidates mixed up the steps with those in formulating a market research plan and management process.
		(b) Fair. Many candidates were able to explain the socio-cultural factors and psychological factors affecting the buying decisions of the fashion chain's customers. They provided enough explanation and gave relevant examples to illustrate various factors. However, some candidates failed to indicate clearly the types of factors and some wrongly classified the factors. Also a few candidates misinterpreted the question as asking about the buying decision making process.

General comments and suggestions

Candidates need to be able to understand and interpret correctly the meaning and requirements of the questions. They tended to write down all the material they had memorised related to the 'key words' they encountered in instead of tailoring their answers to the expectations and contexts specified in the questions. Candidates' flexibility and sensitivity should be enhanced.

Relevant examples are important, especially when elaborations are required in questions. Candidates are encouraged to follow the business news and analysis in order to improve their understanding of real business environments.