

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1
(Sample Paper)

Time allowed: 1 hour 30 minutes
This paper must be answered in English.

GENERAL INSTRUCTIONS

1. There are TWO sections, A and B, in this Paper. Section A carries 60 marks and Section B carries 40 marks. You are advised to finish Section A in about 45 minutes.
 2. Section A consists of multiple-choice questions in this question book. Section B contains conventional 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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SECTION A (MULTIPLE-CHOICE QUESTIONS)

INSTRUCTIONS

1. Read the instructions on the Answer Sheet carefully. Stick a barcode label and insert the information required in the spaces provided.
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 should use an HB pencil to mark all your answers on the Answer Sheet. Wrong marks must be completely erased.
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

1. Which of the following are common arguments for social responsibility?
- (1) Profit maximization
 - (2) Lower product price
 - (3) Meet public expectation
 - (4) Improve company image
- A. (1) and (2) only
 - B. (2) and (3) only
 - C. (3) and (4) only
 - D. (1), (2), (3) and (4)
2. Which of the following statements are correct descriptions of the differences between bondholders and shareholders?
- (1) Shareholders have voting rights and bondholders do not.
 - (2) Shareholders are the owners of a company and bondholders are creditors.
 - (3) Shareholders are repaid prior to bondholders when the company is liquidated.
 - (4) Shareholders receive variable interest income whereas bondholders receive fixed amounts of interest at regular intervals.
- A. (1) and (2) only
 - B. (3) and (4) only
 - C. (1), (2) and (3) only
 - D. (1), (2) and (4) only
3. If you set up a business with your friend as a partnership, which of the following benefits would you enjoy?
- (1) You may bear limited liability.
 - (2) The company would exist as a separate legal entity.
 - (3) Management expertise offered by a board of directors.
 - (4) Company information needs not be disclosed to the public.
- A. (1) and (2) only
 - B. (1) and (4) only
 - C. (2) and (3) only
 - D. (3) and (4) only
4. The process of allocating work and arranging a company's human resources for contributing to its objectives is known as:
- A. controlling
 - B. directing
 - C. organizing
 - D. planning
5. Which of the following managerial skills is relatively less important for top management?
- A. people skills
 - B. technical skills
 - C. conceptual skills
 - D. decision-making skills

6. Which of the following are the common arguments for globalization?
- (1) It promotes free trade
 - (2) It facilitates specialization
 - (3) It fulfils world responsibility and solves poverty problems
 - (4) It enables people to enjoy a wider variety of goods and services
- A. (1) and (2) only
 - B. (3) and (4) only
 - C. (1), (2) and (3) only
 - D. (1), (2) and (4) only
7. In which of the following financial markets will the initial public offering (IPO) of a limited company be launched?
- A. bond market
 - B. futures market
 - C. money market
 - D. securities market

Refer to the following case for Questions 8 – 9:

The board of directors of NSS Limited held a meeting to consider the acquisition of a boutique in Singapore as a way to expand its garment business internationally. Anna, the finance director, provided a series of financial analyses. However, the marketing director could not understand the information and asked, 'Why don't you simply give us the conclusion: Acquire or not to acquire?'

8. What kind of communication barrier has occurred in the above situation?
- A. use of jargon
 - B. time pressure
 - C. conflicting goals
 - D. different perception
9. Which of the following non-financial factors would also be relevant to the acquisition decision?
- (1) Political stability
 - (2) Market size and potential
 - (3) Cultural difference of target customers
 - (4) Communication and transportation infrastructure
- A. (1) and (4) only
 - B. (2) and (3) only
 - C. (2), (3) and (4) only
 - D. (1), (2), (3) and (4)
10. Which of the following statement(s) about entrepreneurs is(are) correct?
- (1) Entrepreneurs prefer to take high risks.
 - (2) Entrepreneurs are quick at identifying the sources of finance.
 - (3) Entrepreneurs accept failures as an integral part of business success.
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1), (2) and (3)

11. Which of the following is NOT a feature of good corporate governance for a listed company?
- A. setting up of an audit committee
 - B. appointment of independent directors
 - C. establishment of a good security system
 - D. appointment of two persons to take up the positions of CEO and board chairman

Refer to the following case for Questions 12 – 13:

A number of banks from the Mainland launch their initial public offerings in Hong Kong to raise funds. Mr Lee has always wanted to take advantage of this new trend to make quick money. At the new share issue of Tai Lee Bank, a bank based on the Mainland, he subscribed for 80 000 shares on margin from a broker firm, incurring an interest charge of \$300. At last, he was allotted 5000 shares and the brokerage fee and stamp duty amounted to \$20.

The information relating to the shares of Tai Lee Bank was given below:

	<u>Par value</u>	<u>Issue price</u>	<u>Closing price on the first day of trading</u>
300 billion ordinary shares, issued and fully paid	\$1.00	\$1.28	\$1.30

12. Which of the following statements about margin trading is INCORRECT?
- A. Rate of loss will be magnified.
 - B. Rate of return will be magnified.
 - C. Purchase cost of shares will increase.
 - D. The chance of making a profit will increase.
13. What is Mr Lee's profit or loss if he sells his shares at the closing price on the first day of trading?
- A. profit of \$1600
 - B. profit of \$100
 - C. loss of \$80
 - D. loss of \$220

Refer to the following case for Questions 14 – 16:

Mr Wong has some investment in mutual funds. He had also subscribed for the bonds of Victory Ltd at a premium of 5%. One year later, he received by mail from Victory Ltd a cheque for the 5% interest. As he tried to calculate the rate of return, he found that it was lower than 5%.

14. Which of the following descriptions about Victory Ltd's bonds is correct?
- A. The issue price is net of interest.
 - B. The issue price is equal to its par value.
 - C. The issue price is lower than its par value.
 - D. The issue price is higher than its par value.
15. For the protection of the investors, all trust funds are legally required to be authorized by _____.
- A. The Hong Kong Monetary Authority
 - B. The Securities and Futures Commission
 - C. The Hong Kong Management Association
 - D. The Hong Kong Exchange and Clearing Limited

16. Mr Wong found that the effective rate of return of the bonds was lower than 5%. Which of the following is the best possible explanation for it?
- The par value of the bonds is higher than the purchase price.
 - The par value of the bonds is lower than the purchase price.
 - The market value of the bonds is higher than the purchase price.
 - The market value of the bonds is lower than the purchase price.
17. Which of the following are required to join a Mandatory Provident Fund (MPF) scheme in Hong Kong?
- Self-employed hawkers
 - A sole proprietor, or partner of a partnership type business
 - People from overseas who work for a 2-year contract as domestic helpers
 - People aged between 18 and 65 and working under an employment contract for a continuous period of not less than 60 days on a part-time basis
- (1) and (3) only
 - (2) and (3) only
 - (2) and (4) only
 - (4) only
18. Which of the following should NOT be classified as 'Purchases' by a motor van dealer?
- A motor van bought for showroom display
 - A motor van bought for trial use by customers
 - A motor van bought for use by the managing director
 - A motor van bought to be used for staff transportation but finally put into the warehouse for resale
19. A statement of financial position is _____.
- a list of debits and credits
 - one of the accounts in the ledger
 - prepared to find out how much profit or loss was made during a period
 - a statement of the outstanding balances after the preparation of the profit and loss account
20. Which of the following incidents relating to a toy trader should NOT be recorded in the General Journal?
- The sale of an office desk on credit
 - A credit note received from a supplier
 - The exchange of a fax machine for a copier of equal value
 - Correction of a credit transfer from a customer credited to a wrong personal account
21. Which of the following statements about accounting equation is INCORRECT?
- Assets – Liabilities = Capital
 - Assets – Liabilities = Capital + Revenues – Expenses
 - Non-current assets + Working capital = Capital + Non-current liabilities
 - Non-current assets + Current assets = Capital + Non-current liabilities – Current liabilities

22. Which of the following accounts of BAFS Limited will be credited when there is an increase in amount?

- (1) Electricity expense
- (2) Loan from XYZ Company
- (3) Loan to ABC Company
- (4) Purchases returns
- (5) Rent received
- (6) Sales returns

- A. (1), (2) and (4) only
- B. (1), (3) and (6) only
- C. (2), (4) and (5) only
- D. (3), (5) and (6) only

23. The proprietor of a business draws cash from his private savings account to settle the amount owed to a creditor of the business. The ledger entries should be:

- A. Dr Accounts Payable account Cr Bank account
- B. Dr Accounts Payable account Cr Capital account
- C. Dr Drawings account Cr Accounts Payable account
- D. Dr Drawings account Cr Bank account

24. On 14 February 20X7, Biz Company issued a sales invoice to Tsang Ltd for 40 units of goods at \$100 each, less 25% trade discount. Cash discount of 5% would be allowed for settlement within 7 days. Biz Company finally received the payment on 20 February 20X7.

Which of the following are the correct journal entries to be made in the books of Tsang Ltd for the above?

	Debit \$	Credit \$															
A.	<table border="1" style="width: 100%;"> <tr> <td>Biz Company</td> <td style="text-align: right;">3 000</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Sales</td> <td></td> <td style="text-align: right;">3 000</td> </tr> <tr> <td>Bank</td> <td style="text-align: right;">2 850</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">Discounts allowed</td> <td style="text-align: right;">150</td> <td></td> </tr> <tr> <td style="padding-left: 40px;">Biz Company</td> <td></td> <td style="text-align: right;">3 000</td> </tr> </table>	Biz Company	3 000		Sales		3 000	Bank	2 850		Discounts allowed	150		Biz Company		3 000	
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25. The following is an extract from the trial balance of ACCT Company at the year end 31 December 20X6:

	Dr	Cr
	\$	\$
Beginning inventories	5 500	
Carriage inwards	440	
Carriage outwards	660	
Purchases	73 000	
Returns	5 860	3 490
Sales		113 500

Given that the amount of ending inventories was twice of the opening inventories, the cost of sales for 20X6 was _____.

- A. \$62 080
- B. \$64 010
- C. \$64 450
- D. \$64 670

Refer to the following information for Questions 26 – 28:

The following information relates to Island Company for the year ended 31 December 20X6:

	\$
Accounts payable	5 000
Accounts receivable	6 000
Bank loan (repayable in December 20X7)	11 500
Capital as at 31 December 20X5	36 200
Capital as at 31 December 20X6	44 200
Cash	1 000
Drawings of goods by the owner	6 400
Ending inventories	12 500
Introduction of capital during 20X6	20 000
Mortgage loan (repayable in 20Y1)	60 000
Net profit for the year	15 600
Plant and machinery	80 000

26. Island Company's working capital at 31 December 20X6 amounted to _____.

- A. \$1000
- B. \$3000
- C. \$12 500
- D. \$14 500

27. Island Company's return on capital employed for 20X6 was _____.

- A. 19.40%
- B. 35.29%
- C. 38.81%
- D. 43.09%

28. The cash drawings by the owner during 20X6 amounted to _____.
- A. \$1200
 - B. \$21 200
 - C. \$27 600
 - D. \$37 200
29. The going concern concept means that when preparing accounts, a firm is assumed to continue in operational existence for the foreseeable future _____.
- A. and will not cease trading
 - B. and has no intention to liquidate
 - C. but at a level of activity significantly less than the current level of activity
 - D. and has no intention to liquidate or reduce significantly the scale of operation
30. Mr Chan, a sole trader, purchased a specialized machine for the business and paid the purchase invoice by a personal cheque. The machine was listed on the statement of financial position at its original cost of \$3 000 000 although it could only be realized for \$800 000 if the business was discontinued.
- Which of the following accounting concepts is NOT applicable to the above situation?
- A. accrual
 - B. business entity
 - C. going concern
 - D. historical cost

END OF SECTION A

Go on to Question-Answer Book B for questions in Section B

B

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

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 1

SECTION B: Question-Answer Book B (Sample Paper)

This paper must be answered in English.

INSTRUCTIONS

- (1) Write your Candidate Number in the space provided on Page 1.
- (2) Stick barcode labels in the spaces provided on Pages 1, 3 and 5.
- (3) Refer to the general instructions on the cover of the Question Book for Section A.
- (4) The questions in this Question-Answer Book carry 40 marks. 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 provided on request. Write your candidate number, fill in the question number and stick a barcode label on each sheet. Tie them loosely but securely with a string **INSIDE** this Question-Answer Book.

Please stick the barcode label here.

Candidate Number

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Marker's Use Only	Examiner's Use Only
Marker No.	Examiner No.

Question No.	Marks	Marks
1		
2		
3		
4		
5		
6		
Total		

Please stick the barcode label here.

3. In deciding whether to join a fashion retail chain or not, suggest two criteria for assessing the franchisor. (4 marks)

4. Mr Lee retired two years ago and has kept the \$1 000 000 retirement fund in the form of a fixed deposit at an interest rate of 4.5% per annum. His friend suggests that investment in other financial products may yield a higher return.

- (i) Name three types of financial products available in the Hong Kong securities market that Mr Chan might consider. (3 marks)

- (ii) Explain two factors Mr Lee should consider in deciding whether to invest in other financial products instead of keeping the entire amount in a fixed deposit. (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.

Please stick the barcode label here.

6. Mr Chan is the owner of a furniture manufacturing and trading business. Most of the furniture was manufactured by his own factory in Hong Kong and the rest was purchased from several manufacturers in Shenzhen.

The following are the financial ratios of the business for the year ended 31 December 20X6:

	<u>Business</u>	<u>Industry average</u>
Turnover	\$1 250 000	\$1 300 000
Gross profit ratio	38%	60%
Net profit ratio	6%	42%
Current ratio	2.8:1	2.3:1
Liquid ratio	0.8:1	1.2:1

(a) Suggest two reasons why the gross profit ratio and net profit ratio of Mr Chan's business are much lower than the industry averages. (4 marks)

(b) Comment on the liquidity of Mr Chan's business in 20X6. (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.

(c) In early 20X7, Mr Chan plans to close the factory in Hong Kong and form a new business in Shenzhen. All the workers of the Hong Kong factory will then be laid off.

Propose two measures that Mr Chan could adopt to minimize the workers' dissatisfaction with their layoffs. (4 marks)

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
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
PAPER 2B
BUSINESS MANAGEMENT MODULE

(Sample Paper)

Time allowed: 2 hours 30 minutes

This paper must be answered in English.

INSTRUCTIONS

- (1) There are three sections in this paper: Section A (30 marks), Section B (50 marks) and Section C (20 marks).
- (2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.

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

SECTION A

Answer **ALL** questions in this section.

1. Explain three reasons why customer relationship management will help increase sales. (6 marks)
2. Describe three ways in which a travel agency could satisfy the rights of consumers. (6 marks)
3. Illustrate two methods by which an import/export company could hedge against its foreign exchange risk. (4 marks)
4. Recommend two ways in which a company could manage its accounts receivable effectively. (4 marks)
5. Explain three disadvantages to a company of using interviews in the recruitment process. (6 marks)
6. Briefly describe two elements that should be included in a staff disciplinary system. (4 marks)

SECTION B

Answer **ALL** questions in this section.

7. Mr Wong has founded and managed Wai Fu Limited for more than 20 years. Mr Wong believes in exercising strict control over staff behavior and performance. He has introduced detailed work procedures and stringent rules and regulations. Very close supervision and severe punishments are imposed on staff to ensure their behavior and performance comply with the company's requirements. Furthermore, Mr Wong believes that, with such close supervision, there is no need to invest resources on staff training and development.

Over the last few years, a number of staff have left the company or retired. The education level and qualifications of the new recruits are generally better. Initially they were enthusiastic and often worked overtime for no extra pay. Later, they started to express dissatisfaction with their supervisors for strict staff control over minor matters, such as occasional late arrival of less than 5 minutes.

The number of customer complaints increased tremendously in the last two years, and the staff turnover rate reached 40% for the past 12 months. In addition, there has been a drastic drop in the company's sales and profits.

Mr Wong's son, David, has recently returned to Hong Kong from the US to take up the management of the company. After studying the situation carefully and meeting with some staff, David concludes that the company is faced with the problem of low staff morale and its first priority is to change the style of staff supervision.

David also proposes that training and development should be provided to all staff over three years but is not sure about the approach of offering the programs. He is told that hiring the service of a training consultancy firm would require an immediate payment of \$320 000 for the contract. Alternatively, if a professional trainer is employed to provide in-house training, the following payments (all made at the beginning of the respective year) will be required:

First year:	\$100 000
Second year:	\$110 000
Third year:	\$120 000

- (a) Explain why Wai Fu Limited is faced with the problem of low staff morale with respect to:
- (i) Herzberg's dual factor theory (3 marks)
 - (ii) McGregor's motivation theory (3 marks)
- (b) (i) Explain three benefits to Wai Fu Limited of providing training and development programs to staff. (6 marks)
- (ii) Describe the steps that Wai Fu Limited should adopt in the training process. (6 marks)
- (c) (i) Based on present value (PV) calculations, advise whether the company should hire a training consultancy firm or employ an in-house training professional. (Note: Assume the cost of capital is 8% per annum.) (2 marks)
- (ii) Suggest one financial factor that will cause Wai Fu Limited not to make the decision based on the PV results. (2 marks)
- (d) Discuss two non-financial factors that should be considered in deciding the approach of offering the training programs. (4 marks)

(Total: 26 marks)

8. Starlight Hotel is a four-star hotel situated in Kowloon City near the former airport. The hotel offers more than 300 guest rooms, 6 restaurants and bars, as well as other entertainment facilities. With its strategic location, the hotel enjoyed a high occupancy rate. After the relocation of the airport from Kowloon City to Chap Lap Kok, the occupancy rate of the hotel has dropped over the years. Last year, the hotel recorded a net loss in its operation.

Raymond Kwok, General Manager of the hotel, is eager to turn the situation around. With the introduction of 'Individual Visit Scheme' and the recovery of long-haul travel, Raymond is still optimistic about the hospitality industry in Hong Kong. During a management meeting, Raymond asked Winnie Chan, Marketing Manager of the hotel, 'Do you have any suggestions that can turn our situation around?'

'One of the problems we are facing is the fluctuating demand. The occupancy rate of our hotel is satisfactory during the peak periods in July and October. I think the key to increase our profit is to boost the sales during off-peak periods,' Winnie replied.

'It sounds reasonable. Apart from improving our occupancy rate during off-peak periods, we can develop a membership scheme to boost the sales of our food and beverage outlets. Guests who have paid a yearly membership fee can enjoy discounts and other privileges in our restaurants and bars,' Raymond suggested.

- (a) Illustrate three risk management strategies with respect to the operation of a hotel. (6 marks)
- (b) With respect to the characteristics of service, discuss three possible causes leading to the unsatisfactory occupancy rate of Starlight Hotel. (6 marks)
- (c) Describe the major elements of the marketing plan for the membership scheme suggested by Raymond. (8 marks)
- (d) Besides the membership scheme, propose two other ways of increasing sales during off-peak periods. (4 marks)

(Total: 24 marks)

Section C

Answer **ONE** question in this section.

9. Bertha Limited is a Hong Kong based small enterprise engaged in the manufacture and retailing of fashion for young ladies. In view of the growing popularity of its products, the company is planning to expand its business substantially. At the same time, the company is going to evaluate all its existing jobs to revise its reward system so as to attract more professionals to join the company.
- (a) Describe the assistance Bertha Limited may, as a small and medium enterprise (SME), obtain from the Government in financing its expansion. (8 marks)
- (b) Discuss why an SME and a large corporation would differ in their choice of job evaluation methods. (12 marks)

(Total: 20 marks)

10. Besides selling to individual consumers through its own retail outlets, a manufacturer of bathroom and kitchen products also sells to property development companies who buy in bulk for building residential flats.
- (a) With respect to the bulk purchase of bathroom and kitchen products, illustrate the buying decision-making process of the property development companies. (8 marks)
- (b) Compare and contrast the marketing mix strategies that the manufacturer would adopt for business buyers and individual consumers. (12 marks)

(Total: 20 marks)

END OF PAPER

MARKING GUIDELINES

Paper 1 Compulsory Part

SECTION A

1.	C	11.	C	21.	D
2.	A	12.	D	22.	C
3.	B	13.	D	23.	B
4.	C	14.	D	24.	C
5.	B	15.	B	25.	C
6.	D	16.	B	26.	B
7.	D	17.	C	27.	C
8.	A	18.	C	28.	B
9.	D	19.	D	29.	D
10.	C	20.	B	30.	A

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 2 marks each are as follows:
 - 0 mark - irrelevant or ambiguous answers
 - 1 mark - mention of key concept or words
 - 2 marks - briefly explained concept

QUESTION 1

Marks

Elements:

4

- mission and business objectives
 - form of ownership
 - operations management
 - marketing management
 - financial management
 - human resource management
 - contingency actions
- (1 mark for each relevant element, max. 4 marks)

4 marks

QUESTION 2**Marks**

External factors:

6

- political/legal: government policies about licensing, rules and regulations
 - economic: economic growth, income level and purchasing power
 - socio-cultural: cultural values, lifestyle
 - technological: technological level of café operation, IT applications
 - competitive: operation of other cafés and competition in the industry
- (2 marks for each relevant factor, max. 6 marks)

6 marks

QUESTION 3**Marks**

Criteria:

4

- franchisor's reputation
 - restrictions and obligations
 - initial joining fee and royalty
 - support and assistance offered, e.g. promotion and training
 - franchisor's positioning and strategies match own expectation and desire
- (2 marks for each relevant criterion, max. 4 marks)

4 marks

QUESTION 4**Marks**

(i) Types:

3

- shares
- bonds
- commercial papers or other notes
- derivatives, e.g. futures, warrants and options
- funds

(1 mark for each relevant type, max. 3 marks)

(ii) Factors:

4

- expected return, e.g. dividend or coupon rate of the financial product(s)
- risk-bearing ability, e.g. ability to suffer capital loss
- liquidity of the financial product(s)
- time and effort involved in monitoring the investment

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

7 marks

QUESTION 5

Marks

- (a) PV of Proposal 1
 $\$2\,000\,000 \div (1.1)^3 = \$1\,502\,630$

2

PV of Proposal 2

3

<u>Year</u>	<u>Calculation (\$)</u>	<u>PV (\$)</u>
Beginning of 20X7	600 000	600 000
End of 20X7	$500\,000 \div (1.1)$	454 545
End of 20X8	$400\,000 \div (1.1)^2$	330 579
End of 20X9	$300\,000 \div (1.1)^3$	225 394
		<u>1 610 518</u>

- (b) Mr Wong should adopt Proposal 1 because its time-weighted cost is lower than that of Proposal 2.

2

7 marks

QUESTION 6

Marks

- (a) Reasons:
- relatively low selling price
 - relatively high production cost
 - operating costs are high / control on operating costs is ineffective
- (2 marks for each relevant reason, max. 4 marks)

4

- (b) Comments:
- the liquidity of the business is worse than the industry average
 - there are not sufficient liquid assets to meet its immediate debts
 - too much capital is tied up in stock
- (2 marks for each relevant comment, max. 4 marks)

4

- (c) Measures:
- provide more generous compensation (more than statutorily required)
 - communicate and explain to all workers the reasons for the layoff
 - help laid off workers look for other jobs / recommend the good workers to other furniture factories
- (2 marks for each relevant measure, max. 4 marks)

4

12 marks

END OF PAPER 1

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

QUESTION 1

Marks

Reasons:

6

- identify valuable customers
- provide customized products or services
- offer cross-selling and/or up-selling
- establish long-term relationship with customers so as to increase potential long-term sales

(2 mark for each relevant reason, max. 6 marks)

6 marks

QUESTION 2

Marks

Ways:

6

- right to be informed: provide sufficient information to the consumers about the itinerary (e.g. accommodation arrangements and scenery spots to be visited)
- right to safety: avoid high-risk / dangerous activities
- right to be heard: prompt response to customers' enquiries and complaints about the tour
- right to choose: provide a wide choice of tours

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

6 marks

QUESTION 3

Marks

4

Methods:

- buy/sell standardized FOREX futures contracts
 - buy call or put foreign currency options
 - enter into agreements on foreign currency swaps
- (2 marks for each relevant arrangement, max. 4 marks)

4 marks

QUESTION 4

Marks

4

Ways:

- establish a workable credit policy to screen customers before granting credit
 - establish a written policy and let each customer know in advance the company's credit terms
 - establish practice of sending invoices for payment promptly
 - establish immediate follow-up measures for those accounts that are overdue
- (2 marks for each relevant way, max. 4 marks)

4 marks

QUESTION 5

Marks

6

Disadvantages:

- high administrative cost
 - time-consuming
 - subject to personal bias
 - only a snapshot of the candidate's performance
- (2 marks for each relevant disadvantage, max. 6 marks)

6 marks

QUESTION 6

Marks

4

Elements:

- communication: explain to staff the mechanics of the system and ensure all of them are duly informed
 - progression: disciplinary measures should be graded e.g. verbal warning, written warning, suspension from duties, summary dismissal or termination of employment
 - documentation: details such as 'breach of disciplinary regulations', disciplinary action taken, employee's self-defense and validity of disciplinary action taken should be sufficiently recorded and dated
 - appeal mechanism: establish clear procedures for appeals
- (2 marks for each relevant element, max. 4 marks)

4 marks

QUESTION 7

Marks

- (a) (i) Herzberg's dual factor theory: 3
- a command and control environment hampers the satisfaction of hygiene factors and does not cater for motivators; stringent rules and regulations may hinder the satisfaction of higher level needs e.g. growth and development, sense of achievement, etc.

- (ii) McGregor's motivation theory: 3
- mismatch with staff needs: Mr Wong is basically a Theory X entrepreneur who assumes that employees are inherently lazy and will avoid work if they can, but the new staff might have higher career expectations

- (b) (i) Benefits: 6
- enhance staff's commitment to the company
 - enhance knowledge and skills of staff
 - maximize individual productivity and potential
 - prepare staff for changes
- (2 marks for each relevant benefit, max. 6 marks)

- (ii) Steps: 6
- identify training needs
 - devise and implement training programs to meet the training needs revealed in training gap
 - measure the performance achieved after training
 - evaluate the cost effectiveness of the training programs
- (1½ marks for each relevant step, max. 6 marks)

(c)	(i)	First year	\$100 000	1
		Second year	$\$110\,000/(1+8\%)$	101 852
		Third year	$\$120\,000/(1+8\%)^2$	<u>102 881</u>
			<u>304 733</u>	

As the PV of employing a training professional is less than \$320 000, the cost of hiring a training consultancy firm, the company should choose to employ an in-house training professional. 1

- (ii) Financial factors: 2
- the company is faced with tight cash position
 - high opportunity cost of the amount involved
- (2 marks for a relevant factor, max. 2 marks)

- (d) Non-financial factors: 4
- the range/specificity of expertise involved
 - other supporting factors e.g. venue, staff deployment
 - long term training needs
 - alignment with corporate culture
- (2 marks for each relevant factor, max. 4 marks)

26 marks

QUESTION 8

Marks

- (a) Strategies: 6
- risk avoidance: e.g. avoid offering rooms to guests whose identities are suspicious
 - risk prevention/reduction: e.g. protective security system
 - risk assumption: e.g. accept minor damage like broken glasses in food and beverage outlets, or set aside a reserve fund to cover loss
 - risk transfer: buying insurance against theft and fire
- (2 marks for each relevant strategy, max. 6 marks)
- (b) Causes: 6
- perishability, e.g. cannot stock up room service to meet seasonal demand
 - intangibility, e.g. poor customer service
 - inseparability, e.g. lack of proximity to prospective customers
 - heterogeneity, e.g. quality level of food and accommodation service is not steady as skills and experience of staff members vary
- (2 marks for each relevant cause, max. 6 marks)
- (c) Marketing plan: 8
- situational analysis and marketing objectives, e.g. SWOT analysis, number of members to be recruited
 - selection of target market and positioning, e.g. high-income customers who frequently dine out
 - setting the marketing mix (4P), e.g. competitive membership fee, personal selling, members' privileges, online booking
 - implementation and evaluation, e.g. corrective actions to be taken if there is any deviation between the results and the objectives
- (2 marks for each element, max. 8 marks)
- (d) Ways: 4
- reduce prices in off-peak periods to stimulate sales
 - offer value-added services, e.g. free internet service in the rooms
 - change some of the hotel suites into service apartments
 - offer promotion package to local residents during weekends
 - promote other services, e.g. hire of venue for business conferences or exhibitions, food festivals
- (2 marks for each relevant way, max. 4 marks)

24 marks

QUESTION 9

Marks

- (a) Government assistance to SMEs:
- SME Loan Guarantee Scheme
 - SME Training Fund
 - SME Export Marketing Fund
 - SME Development Fund

8

(2 marks for each relevant form of assistance, max. 8 marks)

- (b) Differences:

12

	SME	Large corporation
Comprehensiveness and complexity	<ul style="list-style-type: none"> - Job ranking method is most suitable to SMEs because of its simplicity and non-analytical nature. 	<ul style="list-style-type: none"> - Factors comparison and point methods are sophisticated, quantitative techniques. They are more complex, costly and time-consuming and are mostly adopted only by large corporations.
	<ul style="list-style-type: none"> - Classification or job grading method is simple, semi-analytical, and inexpensive and might be suitable for both. 	
Formalization:	<ul style="list-style-type: none"> - Job ranking method is the least formalized as it only requires the ranking of jobs from the highest to the lowest. It is often based on subjective judgment and therefore more suitable for SMEs. 	<ul style="list-style-type: none"> - Factors comparison and point methods require the setting up of committees to make precise judgment on selecting key jobs as standard and allocate points to job criteria, etc. - Classification or job grading method also requires the setting up of a committee to develop written definitions for each grade of job.
Flexibility	<ul style="list-style-type: none"> - Job ranking and classification methods are more flexible as they do not involve complicated administration. Standards may be changed easily by SMEs with fairly homogeneous jobs. 	<ul style="list-style-type: none"> - Factors comparison and point methods require a lot of discussion and objective judgment and take time and money to develop. They will not be changed easily once set up. They are therefore more commonly adopted by large corporations.
Time horizon	<ul style="list-style-type: none"> - The time horizon of job ranking and classification methods is usually short e.g. one year, as the designs are largely based on impressionistic (or even intuitive) judgment. The criteria may be changed every year. Therefore the methods are more suitable for most SMEs. 	<ul style="list-style-type: none"> - As the factors comparison and point methods take time and money to develop and more objective factors are used in their development, the systems tend to be used for longer periods of time and they are therefore more suitable for large corporations.

(4 marks for each relevant comparison, max. 12 marks)

20 marks

QUESTION 10

Marks

- (a) Buying decision-making process: 8
- recognize the problem: e.g. identify new market needs for real estate projects
 - determine product needs and describe product specifications: e.g. characteristics and quantity of the items needed
 - search for suppliers: e.g. seek out qualified suppliers and invite them to submit tenders
 - assess and select suppliers: e.g. review tenders and select supplier(s) based on criteria such as price, quality and reputation
 - evaluate overall performance: e.g. the company evaluates suppliers' performance.
- (2 marks for each step, max. 8 marks)

- (b) Comparison of marketing strategies: 12

	Business buyers	Individual consumers
Product	<ul style="list-style-type: none"> - More tailor-made products - Product support is critical, e.g. more organized after-sales service 	<ul style="list-style-type: none"> - More standardized products - Usually offer warranty for a limited period of time
Pricing	<ul style="list-style-type: none"> - Competitive bidding and negotiation; list price on standardized products - Bulk discounts 	<ul style="list-style-type: none"> - List price - Promotional discounts
Promotion	<ul style="list-style-type: none"> - Promotion strategies suitable for concentrated customers, e.g. promotion by own sales force. 	<ul style="list-style-type: none"> - Promotion strategies suitable for scattered customers, e.g. mass advertising
Place	<ul style="list-style-type: none"> - Direct channel by own sales force 	<ul style="list-style-type: none"> - Direct channel through own retail outlets

(3 marks for each aspect, max. 12 marks)

20 marks

END OF PAPER 2B