

BAFSSCHOOL OF THE HONG KONG ECONOMIC TIMES
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION
MOCK PAPER 2014

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
PAPER 1

Time allowed: 1 hour 15 minutes
This paper must be answered in English

GENERAL INSTRUCTIONS

1. This paper consists of TWO sections, A and B. Section A carries 60 marks and Section B carries 30 marks.
2. Section A consists of multiple-choice questions. Section B contains short questions.
3. Answers to Section A should be submitted online before 26 Jan 2014 (www.econschool.com/mock2014) while answers to Section B should be written in the spaces provided in Answer Book or your own paper.

SECTION A (MULTIPLE-CHOICE QUESTIONS)

INSTRUCTIONS

1. There are 30 questions in this paper. "END OF SECTION A" will be printed after the last question.
2. All questions in this section carry equal marks.
3. ANSWER ALL QUESTIONS.
4. You should choose only ONE answer for each question.
5. No marks will be deducted for incorrect answers.

SECTION A (60 marks)

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

1. The management of a company satisfies the principle of unity of direction. Therefore,
 - A. each employee only has one superior.
 - B. the working objectives of all workers are consistent.
 - C. the management has conceptual skills.
 - D. the knowledge of the management is limited.

2. Which of the following statements about Closer Economic Partnership Arrangement (CEPA) is correct?
 - A. It includes the construction of Hong Kong-Zhuhai-Macau Bridge.
 - B. It implements zero tariff on half of the imported goods of Hong Kong origin.
 - C. It enables Hong Kong's accounting professionals to have an easier way to enter the Mainland market.
 - D. It provides all the service suppliers operating in Hong Kong with preferential access to the Mainland market.

3. Which of the followings is not an effect of globalisation?
 - A. Labour mobility increases.
 - B. More products become standardised in the market.
 - C. Small and medium enterprises in Hong Kong face less competition.
 - D. More enterprises outsource the production process to regions with cheaper labour cost.

4. Which of the following stakeholders are interested in the profitability of an enterprise?
 - (1) Investors
 - (2) Management
 - (3) Suppliers
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

5. Which of the following double-entries is incorrect?

Transaction	Account to be debited	Account to be credited
A. Cash sale of goods.	Cash	Inventory
B. Paid creditor by cheque.	Accounts payable	Bank
C. Owner bought a computer for the enterprise with personal cash.	Computer	Capital
D. Received loan from a bank.	Bank	Loan from bank

Based on the following information, answer Question 6 to 7:

Mrs. Lee plans to retire one year later. She has set up a 3-year fixed Renminbi fixed deposit account today, with principal of RMB 100,000. The annual interest rate is 3% compounded yearly.

6. How much would Mrs. Lee get back at the maturity of her deposit?
- A. RMB 9 273
 - B. RMB 103 000
 - C. RMB 109 000
 - D. RMB 109 273
7. 3 years later, Mrs. Lee plans to invest the principal and interest of the deposit. Which of the following investment tools are the most suitable for her?
- A. Blue chips
 - B. Government bonds
 - C. Shares of a small-scaled company
 - D. Equity funds of the emerging market
8. Mr. Leung plans to open a restaurant in Hong Kong, and hopes that his business to be succeeded by his son 10 years later. He also does not want to lose control over the business due to acquisition of shares by outsiders. Which of the following forms of business ownership should Mr. Leung establish?
- A. Sole proprietorship
 - B. Form a partnership with his wife
 - C. Listed company
 - D. Private limited company
9. If the secondary market _____, _____ in the primary market.
- A. does not issue securities there is no security to trade
 - B. has a lower liquidity it is more difficult to attract investors to subscribe newly issued shares
 - C. is larger in size it is more difficult to attract investors to subscribe newly issued shares
 - D. is healthier it is easier to attract transactions of securities that have been issued
10. Which of following descriptions about revolving credit is correct?
- A. This type of credit has a fixed repayment schedule.
 - B. The credit limit is standardised among banks.
 - C. Borrowers can repay the loan in full at any time.
 - D. Borrowers need to re-apply for the credit facility after repayment.

11. Vertical communication must
- A. be one-way.
 - B. transfer from superior to subordinate.
 - C. involve different levels of workers.
 - D. be formal.
12. Good corporate governance can
- (1) increase the share price of the company.
 - (2) increase the wealth of the shareholders of the company.
 - (3) decrease the company's chance of being acquired.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
13. Miss Wong has just graduated and got a job offer from a bank. She does not mind to bear risk, and merely hopes to earn the highest return on MPF funds. She should choose
- A. equity funds.
 - B. balanced funds.
 - C. bond funds.
 - D. money market funds.
14. Suppose a securities firm in Hong Kong transferred its clients' shares without authorisation. The _____ should be responsible to investigate into the case.
- A. Office of the Commissioner of Insurance
 - B. Hong Kong Monetary Authority
 - C. Securities and Futures Commission
 - D. Hong Kong Exchanges and Clearing Limited

Based on the following information, answer Question 15 to 16:

Ho's Enterprise purchased 10 units of goods of \$500 each on credit from a supplier, Rainbow Company on 1 January 20X4, and it got a 10% trade discount. If Ho's Enterprise could settle the payment within one month, it could get an extra 5% cash discount.

15. What was the amount that Ho's Enterprise should record in its purchases journal due to the above transaction?
- A. \$4 275
 - B. \$4 500
 - C. \$4 750
 - D. \$5 000

16. Ho's Enterprise realised that a piece of goods was damaged a week later, it should issue a _____, showing an amount of _____.
- A. debit note \$427.5
 - B. debit note \$450
 - C. credit note \$427.5
 - D. credit note \$450
17. As the toy manufacturing industry in Hong Kong is in recession, _____ in Ms. Lee's toy factory.
- (1) the degree of division of work will fall
 - (2) the level of delegation will decrease
 - (3) there is no specific plan
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
18. An enterprise planned to commence its business within a year originally. However, the government has not issued the operating licence after three years. The enterprises should
- A. set the objective for the plan.
 - B. change the style of leadership.
 - C. simplify the organisation chart.
 - D. take corrective actions.
19. Which of the following transactions should be recorded in the general journal?
- A. Purchased office equipment in cash
 - B. The owner injected cash into the business
 - C. A trade debtor returned goods
 - D. The owner withdrew goods for private use
20. The objective(s) for an enterprise to prepare a trial balance is / are:
- A. to act as a basis to prepare the financial statements.
 - B. to ensure all transactions to be recorded correctly.
 - C. to facilitate the comparison of data with other enterprises.
 - D. All of the above.

Based on the following information, answer Question 21 to 22:

Miss Lee and Mr. Chan established a company which manufactures toys in the Mainland. The Mainland government verified that the company exploiting the workers and charged the company for violating the local labour law. Both Miss Lee and Mr. Chan had to bear such legal liability.

21. The company is probably a _____, as the above information shows that _____.
- A. partnership it has unlimited liability
 - B. partnership it is not a legal entity
 - C. limited company it is a legal entity
 - D. limited company it is not a legal entity
22. The above information shows that the company violated the social responsibilities to _____.
- (1) employees
 - (2) customers
 - (3) the government
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
23. Which of the following are the duties of the human resources department in a restaurant?
- (1) Monitor the labour supply in catering industry.
 - (2) Search training courses for the chef trainees.
 - (3) Predict the change in the price of ingredients.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
24. Mr. Chan's trading company _____ a small and medium enterprise (SME) in Hong Kong because _____.
- A. is its decision is subjective
 - B. is its number of workers is very small
 - C. is not its business involves foreign countries
 - D. is not its business risk is very large

Based on the following information, answer Question 25 to 26:

Forest Furniture Company had the following account balances as at 31 December 20X3:

	\$
Sales	301 120
Purchases	105 210
Returns inwards	5 390
Carriage inwards	8 250
Salaries	82 300
Rental income	70 000
Inventory, as at 1 Jan 20X3	52 380
Inventory, as at 31 Dec 20X3	60 260

25. The gross profit for Forest Furniture Company for the year ended 31 December 20X3 was _____.
- A. \$105 580
B. \$190 150
C. \$198 400
D. \$260 150
26. The net profit ratio of the company for the year ended 31 December 20X3 was _____.
- A. 12.80%
B. 59.06%
C. 60.14%
D. 64.30%
27. Moon Enterprise had the following information for the year ended 30 June 20X3: Closing capital \$138 620, Drawings \$3 200, Net profit for the year \$58 920. The return on capital employed based on the average capital balance for the above year of the enterprise was _____.
- A. 35.39%
B. 42.50%
C. 53.20%
D. There is insufficient information to calculate.
28. The total rental expense of the Earth Company each year was \$480 000, but the enterprise has already paid the rent of 20X2 and 20X3 on 1 January 20X2. The rental expense shown on the income statement of the Earth Company for the year ended 20X3 was _____.
- A. \$0, as the rent was paid in 20X2.
B. \$240 000, as the rent should be entered in the books in two years equally.
C. \$480 000, as the expenses should be entered in the books when they are incurred.
D. \$960 000, as the rent of the two years used up in the year 20X3.

29. In recent years, many enterprises set up their official pages in social websites and collect opinions from the customers. Which of the following are the advantages of this communication method?
- (1) Able to receive large volume of comments at the same time.
 - (2) Easy to share information.
 - (3) Limited storage space is required to store the message.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
30. The decision making of small and medium enterprises (SMEs) is very flexible because
- A. they are lack of capital.
 - B. their management adopts autocratic leadership.
 - C. their organisation chart is flat.
 - D. they can produce creative products.

End of Section A

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 1

SECTION B: Answer Book

This paper must be answered in English

INSTRUCTIONS

1. Write your Candidate Number in the space provided on the right.
2. Refer to the general instructions on the cover of the Question Book for Section A.
3. This section carries 30 marks. Question 1 to 4 are compulsory. You are required to answer Question 5 or 6 only.
4. Write your answers in the specified spaces provided in this Answer Book or your own paper. Answers written in the margins will not be marked.
5. If the spaces provided in the Answer Book is not sufficient, you can use your own paper. Write your candidate number and question number on each answer sheet. Enclose them securely with a string INSIDE the Answer Book.

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		

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

3. Fu Wah Café is a Hong Kong styled restaurant operating in Hong Kong. Two years ago, it expanded its business in the Mainland through franchising. However, as the franchisees in the Mainland used ingredients with poor quality, many criticisms arose. As a result, Fu Wah closed up all its franchise stores.

List two disadvantages of franchising to franchisor reflected by the above case. (4 marks)

4. Paul is a customer service officer of a telecommunication company. He received a complaint from a customer that he could not connect to the mobile phone network and requested to terminate the mobile telecommunication services without paying the relevant early termination charges. Paul therefore asked for help from two of his supervisors, Mr. Lee and Mrs. Wong.

"No matter what the reason is, the customer should pay the relevant service charges whenever he terminates any services before the maturity of the contract." Mr. Lee said. On the contrary, Mrs. Wong said, "the customer could not connect to the mobile phone network, that means we did not provide services with reasonable quality as stated on the contract. Therefore, we should not charge him the relevant service charges." Yet, at the end Paul did not know how to handle the complaint.

(a) List one principle of effective management that was violated by the above telecommunication company. (1 mark)

(b) From the above telecommunication company's point of view, explain two disadvantages that may be caused by the violation of the principle of effective management mentioned in (a). (4 marks)

Answer written in the margins will not be marked.



Answer Question 5 or 6.

5. Ms. Leung is operating a cake shop in the form of sole proprietorship. She is not familiar with handling accounting records and she forgot the opening balance of the capital account. The following were the account balances as at 31 December 20X3 of the cake shop:

	\$
Rent	23 500
Wages	50 000
Returns outwards	500
Purchases	42 100
Sales	89 000
Loan from bank	40 000
Accounts payable	700
Machinery	83 200
Computer	5 000
Cash in bank	4 500
Cash in hand	1 900

The closing inventory was valued at \$10 300.

(a) Prepare the income statement and balance sheet for the year ended 31 December 20X3 for Ms. Leung.
(8 marks)

(b) According to the case of Ms. Leung, state one disadvantage of sole partnership over proprietorship.
(2 marks)

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

Answer written in the margins will not be marked.

6. Mary is the accounting intern of Superb Company. Her colleague threw the cashbook to her and said, "there are errors in the cash book, do it again!"

(a) Which two principles of effective communication has Mary's colleague violated? Explain. (4 marks)

(b) Superb Company had a cash balance of \$750 and a bank balance of \$8 700 as at 1 December 20X3. The following were the transactions in December 20X3:

- 20X3
- December 2 Purchased goods of \$500 from Beauty Company in cash and enjoyed a 2% trade discount.
 - December 3 Paid electricity fee of \$1 200 by cheque.
 - December 8 Withdrew \$3 000 from the bank account and put in the cash box of the enterprise.
 - December 10 Credit sale \$2 000 to Mr. Tong and a trade discount of \$100 was given. If he could repay in 10 days, he could enjoy a 5% cash discount.
 - December 13 The owner withdrew \$300 for personal use.
 - December 18 Mr. Tong repaid the whole amount by cheque.
 - December 25 Sent a cheque of \$1 600 to Ms. Ha, a trade creditor, to settle the whole amount due of \$2 000.
 - December 27 The cheque of \$800 issued by Superb Company last month to Mr. Ng, a trade creditor, was rejected by the bank.

Prepare a two-column cashbook for Superb Company of December 20X3. (6 marks)

END OF PAPER

Answer written in the margins will not be marked.

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BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 2B

BUSINESS MANAGEMENT MODULE

Time allowed: 2 hours 15 minutes

This paper must be answered in English

INSTRUCTIONS

1. This paper consists of THREE sections, A, B and C. Section A carries 24 marks, Section B carries 36 marks and Section C carries 20 marks.
2. Answer ALL questions in Section A and B. You only have to answer one of the two questions in Section C.

SECTION A (24 marks)

Answer **ALL** questions in this section.

1. Briefly describe two sampling methods that an enterprise can adopt when collecting primary data. (4 marks)
2. Explain three factors that should be considered when a company formulates its accounts receivable policy. (6 marks)
3. List two methods of on-the-job training that a construction company can provide for its new construction workers. (4 marks)
4. List three special characteristics of service, and point out how they affect the marketing mix design of a fast food shop. (6 marks)
5. Explain with one example each, the use of the two factors of Herzberg's Dual-factor Theory. (4 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

6. George is operating a fashion boutique, Bright Fashion, in a local small shopping mall in the form of sole proprietorship. After 5 years of operation, the performance of the boutique recorded a persistent decline and customers even complained that the products of the boutique were poor in quality and wore out very quickly. George sought help from his friend, Max, who is familiar with business management, in the hope to improve the business.

Max discovered that nearly a thousand pieces of inventories were piled up in Bright Fashion, some of the products were even out-of-season. Max explained to George, "keeping inventory is a must. However, excessive inventories will affect business operation. You have to sell these clothing as soon as possible, because I believe no one would buy them at all after a while!"

George was frustrated and said, "you are right. I have added new items from time to time to widen the source of goods. However, without new source of customers and the loss of part of the existing customers, I can only sell an average of 15 pieces of products each day, resulting in the pile up of inventories! In fact, I just want to keep 50 pieces of clothing as safety stock."

Max said, "maybe you could try sales promotion..."

- (a) Explain to George two major functions of holding inventory. (4 marks)
- (b) George said it took 7 days for the supplier to send him the inventory after he made an order. Calculate the correct re-order point for Bright Fashion. (2 marks)
- (c) George decided to accept the suggestion of Max and would carry out a sales promotion.
- (i) Explain whether the gross profit ratio of Bright Fashion will necessarily decrease if all the products of Bright Fashion are sold on discount. (2 marks)
- (ii) Illustrate two advantages of sales promotion to Bright Fashion. (4 marks)
- (d) Suggest Bright Fashion with three methods to raise the customer loyalty. (6 marks)

(Total: 18 marks)

7. Wonderland engages in amusement park business in different countries and a new amusement park is confirmed to be built in Hong Kong. Smith, chairman of the company had a meeting with the operations director as well as the human resources director to discuss the development plan in Hong Kong.

Mary, director of the human resources department suggested, "the company should recruit locals with marketing experience of managing big enterprises as the marketing managers of Wonderland Hong Kong, as they are more familiar with the market there. Moreover, we should provide them with high direct and indirect compensation."

Smith agreed with Mary and pointed out, "you are right. The human resources department should be more careful in the recruitment. There were employees sneaking confidential information of the company to resell and our group suffered a loss. Management is of big responsibility and we have to hire employees with integrity."

Later, Alex, director of the operations department reported on the recreational facilities of Wonderland Hong Kong. He said, "there was a roller coaster malfunction in Wonderland New York. We were criticised as a number of people were trapped and got injured. I think we should not build roller coaster in Wonderland Hong Kong to prevent accidents to happen again."

However, Smith commented, "the roller coaster malfunction should be treated as a separate event. Not building roller coaster at all is too negative and I do not agree."

- (a)(i) Suggest Wonderland with two methods of job posting in order to recruit a marketing manager of Hong Kong district, and list one advantage of them respectively. (4 marks)
- (ii) State one reason to support the suggestion of offering indirect compensation to the marketing managers of Hong Kong district by Wonderland. (2 marks)
- (b) For recruiting the marketing managers of Hong Kong district, suggest two appropriate selection methods. (4 marks)
- (c) For the roller coaster malfunction, give two risk management strategies apart from the proposal suggested by Alex, and briefly explain one measure for them respectively. (4 marks)
- (d) What kinds of insurance should the management buy for the Wonderland Hong Kong? List two of them and show their areas of protection respectively. (4 marks)

(Total: 18 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

8. Performance appraisal is especially important for frontline sales staff.
- (a) Describe the steps that are needed for an electric group to carry out performance appraisal for its frontline sales staff. (8 marks)
 - (b) Compare the differences between adopting management by objectives (MBO) method and simple ranking method. (12 marks)
- (Total: 20 marks)**
9. A famous video game producer is evaluating its competitiveness and is planning how to highlight its competitive advantages.
- (a) Illustrate which accounting ratios the producer can use to evaluate the management efficiency of the enterprise. (8 marks)
 - (b) Explain with examples on how the producer can highlight the competitive advantages of the enterprise. (12 marks)
- (Total: 20 marks)**

END OF PAPER

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

Section A

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

1.
Answer: B
A is incorrect. It is the principle of unity of command.
B is correct. Under the unity of direction, the company has only one direction of development. Hence, all workers work for the same objective.
C is incorrect. All management should have conceptual skills. It is not related to unity of direction.
D is incorrect. If the knowledge of the management is limited, he can delegate to the subordinate. However, it is not related to unity of direction.
2.
Answer: C
A is incorrect. The construction of Hong Kong-Zhuhai-Macau Bridge is the development plan under the Pan-Pearl River Delta Regional Cooperation Framework Agreement.
B is incorrect. CEPA fully implements zero tariff on imported goods of Hong Kong origin.
C is correct. Under CEPA, Hong Kong professionals in sectors including accounting have an easier way to enter the Mainland market.
D is incorrect. Only Hong Kong permanent resident or legal entity fulfill the definition of "Hong Kong service supplier" under CEPA are provided with preferential access to the Mainland market. A Non-permanent Hong Kong resident who provides services in Hong Kong cannot enjoy this preferential treatment.
3.
Answer: C
A is incorrect. Under globalisation, businesses employ professionals or skilled labour from different countries. This provides more job opportunities, labour mobility is enhanced.
B is incorrect. Enterprises tend to provide standardised products.
C is correct. Under globalisation, more multi-national enterprises enter Hong Kong's market, SMEs in Hong Kong have to face more competition.
D is incorrect. Under globalisation, more enterprises outsource the production process to regions with cheaper labour cost, thereby lowering the production cost.
4.
Answer: A
(1) is correct. Investors want to learn about the profitability of an enterprise, so as to decide whether it is worth to invest.
(2) is correct. Management wants to learn about the profit or loss of each business in the enterprise, so as to decide the allocation of resources.
(3) is incorrect. Suppliers want to learn about the solvency of an enterprise, so they are more interested in the liquidity ratios rather than the profitability ratios.
5.
Answer: A
A is correct. Inventory account will be opened only at the end of an accounting period. Cash sale of goods should be debited cash account and credited sales account.
6.
Answer: D
The amount Mrs. Lee can get back
 $= \text{RMB } 100\,000 \times (1+3\%)^3$
 $= \text{RMB } 109\,273$
A is incorrect. Students choosing this option may wrongly think that the question requires to calculate the total interest.
B is incorrect. Students choosing this option may wrongly calculate the amount of the deposit after one year.
C is incorrect. Students choosing this option may wrongly calculate the answer by simple interest method.
7.
Answer: B
3 years later, Mrs. Lee has already retired, the risk she can bear is relatively low. Government bonds have the lowest risk among the above investment tools.
8.
Answer: D
A and B are incorrect. A sole proprietorship or partnership is terminated once the sole proprietor or one of the partners does not carry on the business.
C is incorrect. Although a limited company has continuity, the shares can be freely transferred and acquired by outsiders, it is easy to lose the control over the business.
D is correct. A private limited company has continuity, while the shares cannot be freely transferred. Therefore, Mr. Leung does not

need to worry that the shares will be acquired by outsiders and lose control over the business.

9.

Answer: B

A is incorrect. If the primary market does not issue securities, then there is no security to trade in the secondary market.

B is correct. If the liquidity of the secondary market is higher, it is easier to attract investors to subscribe newly issued shares in the primary market.

C is incorrect. If the market size of the secondary market is larger, it is easier to attract investors to subscribe newly issued shares in the primary market.

D is incorrect. Transactions of securities that have been issued should be carried out in the secondary market, but not the primary market.

10.

Answer: C

A is incorrect. Revolving credit does not have a fixed repayment schedule.

B is incorrect. The credit limit of revolving credit is determined by each bank independently.

C is correct. Borrowers of revolving credit can repay the loan in full at any time.

D is incorrect. After repayment, the credit limit is restored and the borrower can draw new loan again up to the credit limit without re-applying for the credit facility.

11.

Answer: C

A is incorrect. Vertical communication means the communication between the superior and the subordinate. It can be one-way or two-way.

B is incorrect. Vertical communication means the communication between the superior and the subordinate. It can transfer from the superior to the subordinate or vice versa.

C is correct. Vertical communication means the communication between the superior and the subordinate. Hence, it must involve at least two levels of workers.

D is incorrect. Vertical communication means the communication between the superior and the subordinate. It can be formal or informal.

12.

Answer: D

(1) and (2) are correct. Investors are more willing to purchase shares of a company with good corporate governance with a higher price, leading to an increase in the share price of the company. An increase in the share price can increase the wealth of the shareholders of the company.

(3) is correct. When the share price excessively fell, the company may become an attractive acquisition target. However, good

corporate governance can increase the share price of the company, lowering its chance of being acquired.

13.

Answer: A

The risk and return of equity funds is higher than the other three types of funds.

14.

Answer: C

Securities and Futures Commission should investigate misconduct of financial intermediaries.

15.

Answer: B

Purchases journal records the amount of credit purchases (after deducting the trade discount). Thus, Ho's Enterprise should record $\$500 \times 10 \times (1 - 10\%) = \4500 .

A is incorrect. Students choosing this option may have deducted both the trade discount and cash discount.

C is incorrect. Students choosing this option may have deducted the cash discount.

D is incorrect. Students choosing this option have not deducted any discount.

16.

Answer: B

When an enterprise returns goods to its supplier, it should issue a debit note showing an amount after deducting the trade discount, i.e. $\$500 \times (1 - 10\%) = \450 .

A is incorrect. Students choosing this option may have deducted both the trade discount and cash discount.

C and D are incorrect. Credit note is the document issued by an enterprise when it accepted the goods returned by the customer.

17.

Answer: A

(1) and (2) are correct. If the scale of enterprise decreases, the degree of division of work and the level of delegation will decrease.

(3) is incorrect. Even if the scale of enterprise decreases, an enterprise should have a specific plan.

18.

Answer: D

A is incorrect. To commence its business within a year is the objective set by the enterprise. Yet, the objective cannot be achieved before the preset deadline.

B is incorrect. Although the operation is deviated from the original plan, it may not be related to the style of leadership.

C is incorrect. Although the operation is deviated from the original plan, it is not necessary to simplify the organisation chart.

D is correct. As the operation is deviated from

the original plan, the enterprise should find out the reason and take corrective actions.

19.

Answer: D

General journal records transactions that are not suitable to be recorded in purchases journal, sales journal, returns outwards journal, returns inwards journal, cash book and petty cash book.

A is incorrect. Purchased office equipment in cash would be recorded in the cash book.

B is incorrect. The owner injected cash into the business would be recorded in the cash book.

C is incorrect. A trade debtor returned goods would be recorded in the returns inwards journal.

D is correct. The owner withdrew goods for private use is not suitable to be recorded in other books of original entry.

20.

Answer: A

A is correct. A trial balance lists the balances of all accounts which acts as a basis to prepare the financial statements.

B is incorrect. A trial balance lists the balances of all accounts to check whether the totals of debit and credit balances are the same, but it cannot ensure all the transactions to be recorded correctly.

C is incorrect. A trial balance is not a financial statement and will not be disclosed to the outsiders. So, it cannot be used to compare with data of other enterprises.

21.

Answer: B

Both Miss Lee and Mr. Chan had to bear the related legal liability. This shows that the company is not a legal entity. Therefore, the company is probably a partnership.

22.

Answer: B

(1) is correct. The company exploited the workers, and thus violating the social responsibilities to employees.

(2) is incorrect. The information cannot show the company violating the social responsibilities to customers.

(3) is correct. The company violated the local labour law, and thus violating the social responsibilities to the government.

23.

Answer: A

(1) and (2) are correct. Human resources management is to manage the staff in the enterprise, including recruitment, development, retention and etc. Hence, understanding the change in the labour market can help the job of recruitment, whereas providing training courses can assist the staff

development.

(3) is incorrect. The price change of ingredients is related to the operations of the restaurant, but not the human resources management.

24.

Answer: B

In Hong Kong, the number of employees is the criteria to define SMEs.

25.

Answer: B

Gross profit

$$\begin{aligned} &= (\text{Sales} - \text{Returns inwards}) - (\text{Opening inventory} + \text{Purchases} + \text{Carriage inwards} - \text{Closing inventory}) \\ &= (\$301\,120 - \$5\,390) - (\$52\,380 + \$105\,210 + 8\,250 - 60\,260) \\ &= \$190\,150 \end{aligned}$$

A is incorrect. Students choosing this option may have calculated the cost of goods sold instead.

C is incorrect. Students choosing this option may forget to add the carriage inwards when calculating the cost of goods sold.

D is incorrect. Students choosing this option may have wrongly added the rental income in the net sales.

26.

Answer: C

Net profit

$$\begin{aligned} &= \text{Gross profit} + \text{Rental income} - \text{Salaries} \\ &= \$190\,150 + \$70\,000 - \$82\,300 \\ &= \$177\,850 \end{aligned}$$

Net profit ratio

$$\begin{aligned} &= \text{Net profit} / \text{Net sales} \times 100\% \\ &= \$177\,850 / \$295\,730 \times 100\% \\ &= 60.14\% \end{aligned}$$

A is incorrect. Students choosing this option may treat rental income as an expense.

B is incorrect. Students choosing this option may use sales as the denominator of the net profit ratio.

D is incorrect. Students choosing this option may have calculated the gross profit ratio.

27.

Answer: C

Opening capital

$$\begin{aligned} &= \text{Closing capital} + \text{Drawings} - \text{Net profit} \\ &= \$138\,620 + \$3\,200 - \$58\,920 \\ &= \$82\,900 \end{aligned}$$

Average capital balance

$$\begin{aligned} &= (\text{Opening capital} + \text{Closing capital}) / 2 \\ &= (\$82\,900 + \$138\,620) / 2 \\ &= \$110\,760 \end{aligned}$$

Return on capital employed

$$= \text{Net profit} / \text{Average capital balance} \times 100\%$$

$$\begin{aligned} &= \$58\,920 / \$110\,760 \times 100\% \\ &= 53.20\% \end{aligned}$$

A is incorrect. Students choosing this option may think that the figure that the question provided is the opening capital.

B is incorrect. Students choosing this option may calculate the return on capital employed with the closing capital.

28.

Answer: C

A and D are incorrect, C is correct. According to the accrual concept, expenses should be recognised when they are incurred. Although the rent was paid in 20X2, the expense of 20X3 should be recorded in the income statement of 20X3.

B is incorrect. Students choosing this option may think \$480 000 was the rental expense of two years.

29.

Answer: D

(1) is correct. Enterprise can receive opinions from the customers around the world at the same time through the official pages.

(2) and (3) are correct. As the messages are digitalised, the enterprises can store them and deliver them to various departments easily.

30.

Answer: C

A is incorrect. This is a characteristic of SMEs. However, there is no direct relationship with flexible decision-making.

B is incorrect. Autocratic leadership can speed up the decision-making process. However, not all management of SMEs will adopt autocratic leadership.

C is correct. A flat organisation chart means there is fewer number of management level.

When there are market changes, the top management can make decision immediately.

D is incorrect. Flexible decision-making is a cause, while the production of creative products is a result.

Section B

1.

Functions:

- Reporting: Financial conditions of enterprises will be summarised regularly and reported to the related parties.
- Planning: Management can make use of the accounting information to formulate its marketing strategies.
- Controlling: Management can evaluate the effect of the plans with the use of the accounting information.

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

2.(a)

Present value of method 1

$$= \frac{\$380\,000}{(1.0575)^3} = \$321\,324 \text{ (2 marks)}$$

Present value of method 2

Year	Calculation (\$)	Present value (\$)
Beginning of 20X3	30 000	30 000
End of 20X3	$105\,000 / (1.0575)^1$	99 291
End of 20X4	$105\,000 / (1.0575)^2$	93 892
End of 20X5	$105\,000 / (1.0575)^3$	88 787
		<u>311 970</u>

(3 marks)

(b)

Method 2 (1 mark). It is because the discounted value of the cost of Method 2 is lower than Method 1 (1 mark).

3.

Disadvantages:

- It is difficult for a franchisor to control the quality of products provided by the franchisees.
- The poor management and operation of a franchisee would cause adverse effect on the image and reputation of the franchisor.

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

4.(a)

Unity of command (1 mark)

(b)

Disadvantages:

- The instructions from the two supervisors are contradictory. Confusing instructions may cause confusion to Paul (the subordinate), leading to the problem of work delay.
- Paul needs to report to two supervisors. It is difficult to distinguish who should be solely responsible and accountable for the acts of Paul. Lack of accountability is resulted.

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

5.(a)

Ms. Leung		Marks	
Income statement for the year ended 31 December 20X3			
	\$	\$	
Sales		89 000	1/2
Less: Cost of goods sold			
Purchases	42 100		1/2
Less: Returns outwards	500		1/2
	<u>41 600</u>		
Less: Closing inventory	10 300	31 300	1/2
		<u>57 700</u>	
Less: Expenses			
Rent	23 500		1/2
Wages	50 000	73 500	1/2
Net loss		<u>15 800</u>	

Ms. Leung		Marks	
Balance Sheet as at 31 December 20X3		1/2	
	\$	\$	
<u>Non-current assets</u>			
Machinery	83 200		1/2
Computer	5 000		1/2
	<u>88 200</u>		
<u>Current assets</u>			
Inventory	10 300		1/2
Cash in bank	4 500		1/2
Cash in hand	1 900		1/2
	<u>16 700</u>		
Less: <u>Current liabilities</u>			
Accounts payable	700		1/2
Net current assets		<u>16 000</u>	1/2
		<u>104 200</u>	
Less: <u>Non-current liabilities</u>			
Loan from bank	40 000		1/2
	<u>64 200</u>		1/2
Financed by:			
Capital			
Balance as at 1 January 20X3 (Balancing figure)	80 000		1/2
Less: Net loss for the year	15 800		1/2
	<u>64 200</u>		

(b)

Disadvantage:

- Lack of division of labour: It is easier for partnership to practise division of labour than sole proprietorship. Partners can contribute their own strength. As Ms. Leung is operating in form of sole proprietorship and is not good at handling accounting records, the operation of the enterprise is hindered.

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

6.(a)

Principles:

- Courtesy: The colleague threw the cashbook to Mary, and Mary might feel unhappy. This may adversely affect the communication.
- Concreteness: The colleague did not point out concretely which part of the cash book had errors, and Mary might find it difficult to make amendments.

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

(b)

Marks

Cash book							
Date	Details	Cash	Bank	Date	Details	Cash	Bank
20X3		\$	\$	20X3		\$	\$
Dec				Dec			
1	Bal b/d	750	8 700	2	Purchases \$500 x (1 - 2%)	490	
				3	Electricity		1 200
8	Bank Mr. Tong	3 000	1 805	8	Cash		3 000
18	S(2 000 - 100) x (1 - 5%)						
	Mr. Ng		800	13	Drawings Ms. Ha	300	1 600
				25	Bal c/d	2 960	5 505
				31			
		<u>3 750</u>	<u>11 305</u>			<u>3 750</u>	<u>11 305</u>

Marks

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 2B

Section A

1.
Methods:

- Random sampling: Each element in the target population has an equal probability to be selected.
- Stratified random sampling: The target population is divided into several groups, and then sample elements are randomly selected in each group.
- Convenience sampling: Researcher selects sample elements that can be reached the most easily.

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

2.
Factors:

- Sales: When an enterprise offers more attractive credit terms, its sales can be increased.
- Profitability: When an enterprise offers more attractive credit terms, costs are involved, which lowers the profitability of the enterprise.
- Liquidity: When an enterprise offers more attractive credit terms, debtors may delay their payments, which lowers the liquidity of the enterprise.
- Policy of competitors: Enterprises should consider the accounts receivable policy of their competitors, so as to remain competitive.

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

3.
Methods:

- Coaching: Experienced workers can provide trainings to new staff.
- Job rotation: The new construction workers can change their job position after a certain period of time.
- Apprenticeship: The new construction workers can participate in a training process that includes classroom training and on-the-job training.

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

4.
Characteristics and effects:

- Intangibility: The fast food shop needs to provide enough evidence to convince the customers that the enterprise can provide high-quality service.
- Inseparability: The fast food shop should try to enhance productivity of staff, so as to enable customers to be served as soon as possible.
- Variability: The fast food shop needs to standardise the operation processes, so as

to reduce the differentiation in staff's service.

- Perishability: The fast food shop should co-ordinate the demand and supply of peak hour and non-peak hour.
- (2 marks for each relevant characteristic and effect, max. 6 marks)

5.
Factors and uses:

- Job satisfaction belongs to motivator, which can lead to job satisfaction of the employees / stimulate the work efficiency of the employees.
- Reasonable salary belongs to hygiene factor, which can prevent the employees from dissatisfaction.

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

Section B

6.(a)
Functions:

- Time lag: When suppliers send goods to the shop, there will be a time lag. So, enterprises should keep inventory to meet the sales of this period.
- Uncertainty: Shops should keep inventory to meet the uncertainties in demand, supply and transportation. For example, when there is a delay in the delivery of goods from the supplier, shops can still have inventory to sell.
- Economies of scale: Shops can enjoy economies of scale when purchasing or transporting in bulk, so enterprises have inventory.

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

(b)
 $155 \text{ units} (= 15 \text{ units} \times 7 + 50 \text{ units})$ (2 marks)

Note: Re-order point = (Daily usage x Number of days for delivery) + Safety stock

(c)(i)
Yes (1 mark). Since the cost of goods sold does not change while the selling price drops (1 mark).

(ii)
Advantages:

- Attract consumer effectively which helps to raise the fame of the boutique
 - Create consumer's purchase intention so as to raise the turnover of the boutique
 - Create consumer's purchase intention so as to reduce the inventory of the boutique
- (2 marks of each relevant advantage, max. 4 marks)

(d)
Methods:

- Provide products that match with customers' expectation: Since customers may think the products of Bright Fashion are out-of-season, it should provide more new fashion items.
- Create strong customer bonds: Set up a membership programme and provide members with discounts, this may attract them to visit the shop continuously.
- Offer add-on services: Apart from sales service, it can also provide value-added services, for example, clothes alteration service, mix and match advice and etc, so as to attract customers.
- Handle customer requests and complaints effectively: As customers criticised the clothes of Bright Fashion were wore out quickly, George should handle their requests promptly. He may exchange a new one for them, so as to restore customer relationship.

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

7.(a)(i)
Methods:

- Employee referral: The current marketing staff may know some marketing experts in Hong Kong, so the suitability of the job applicant can be more guaranteed.
- Post advertisement on the company web site: The cost of job posting is low and the advertisement has wide coverage.
- Through commercial employment agencies: Commercial employment agencies are experienced in acquiring management professionals, so it is easier to find the suitable job applicants for the amusement park.

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

(ii)
Reason:

- Enhance employees' sense of belonging: By providing indirect compensation to the marketing manager of Hong Kong district, Wonderland can demonstrate that it cares for its employees.
- Enhance corporate image: Providing attractive indirect compensation can establish a good image of employer, and thus can enhance the corporate image.

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

(b)
Methods:

- Reference check: Wonderland can obtain more information about the integrity and

personality of the job applicants by verifying with the current and past employers of them.

- Interview: Wonderland can assess the skills of handling problem of the job applicants immediately through interview.
- Personality test: Wonderland can measure whether the job applicants have the characteristics of being a marketing manager through personality test.

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

(c)
Strategies:

- Risk reduction: Wonderland Hong Kong can have more regular check on the roller coaster, so as to reduce the chance of having malfunction.
- Risk transfer: Wonderland Hong Kong can transfer the risk of having malfunction of the roller coaster to the insurance companies through buying insurance.
- Risk assumption: Wonderland Hong Kong can retain certain amount of capital to bear the loss due to the malfunction of the roller coaster by itself.

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

(d)
Kind of insurance:

- Fidelity insurance: Wonderland Hong Kong can transfer the risk of loss due to dishonest acts of employees.
- Employees' compensation insurance: Wonderland Hong Kong can transfer the risk of compensation due to employees' injury at work.
- Public liability insurance: Wonderland Hong Kong can transfer the risk of compensation due to visitors' injury in the amusement park.

(2 marks for each relevant kind of insurance, max. 4 marks)

Section C

8.(a)

Steps:

- Identify the goals: The management can communicate with the subordinates, so as to identify and formulate clear, specific and measurable performance goals.
- Measure the performance: The management can evaluate the performance of the subordinates based on the goals set.
- Provide feedback and coaching: The management can provide feedback and coaching to subordinates based on the performance appraisal, so as to let the latter to improve their performance.
- Make decisions: The management can

make human resources decisions based on the performance appraisal and the result of the feedback. For example, promote staff with good performance and raise their salary.

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

(b)

	<i>MBO</i>	<i>Simple ranking method</i>
Time needed to set the assessment criteria	The management needs to communicate with the subordinates to set the goals, which is more time-consuming.	The management only needs to set the performance dimensions that are needed, which is less time-consuming.
Workload of the management	The management needs to take an active role in the whole MBO process, including setting goals, discussing progress and doing assessments. Workload involved is high.	The management needs to rank employees in different performance dimensions. If there are a lot of employees and their performances are similar, management needs to spend a lot of time to do the ranking.
Standard of different managements	Since the goals are clearly defined, different managements will use the same standard to assess the employees.	Different managements may have different views on the same performance dimension (e.g. Team-work), different ranking may be resulted even for the same group of employees by different managements.
Interpretation by the employees	Since the goals are clearly defined, employees can easily know	Since ranking is a relative concept, it is difficult for employees to know if their own

	whether they reach the standard.	performances reach the standard of the company.
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(4 marks for each relevant comparison, max. 12 marks)

9.(a)

Ratios:

- Inventory turnover: It measures the enterprise's efficiency of using its inventory. The higher the ratio, the quicker the enterprise is able to sell its inventory.
- Average trade receivables collection period: It measures the average time that the enterprise needed to collect the trade receivables. The higher the ratio, the longer time the enterprise is needed to collect its trade receivables.
- Average trade payables repayment period: It measures the average time that the enterprise needed to settle the trade payables. The higher the ratio, the longer time the enterprise is needed to settle its trade payables.
- Total assets turnover: It measures the efficiency that the enterprise uses its assets to generate sales. The higher the ratio, the higher the efficiency that the enterprise uses its assets to generate sales.

(3 marks for each relevant ratio, max. 8 marks)

(b)

Methods:

- Product differentiation: It can highlight its product advantages through the product feature, for example, with a light body.
- Service differentiation: It can highlight its service advantages through offering professional after-sale service, for example, an efficient repair service.
- People differentiation: It can provide training to staff, so as to enable them to provide services better than its competitors, for example, courteous service.
- Channel differentiation: It can highlight its advantages on distribution channel through different means of delivering products to its customers. For example, if its competitors only distribute products through retail shops, it can deliver products directly to customers.
- Image differentiation: It can highlight its product position through a well-established brand image.

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