

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.
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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. Which of the following is not an economic factor affecting a foreign enterprise to set up its business in the Mainland?
 - A. Purchasing power of the consumers
 - B. Average wage of labour
 - C. Price of the raw materials
 - D. Protection of intellectual property rights

2. George is analysing the financial statements of an enterprise of a recent year to decide whether to invest, which of the following are the related limitations?
 - (1) Different accounting policies are adopted
 - (2) Past data are reported
 - (3) Non-quantitative information cannot be shown
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

3. If there is no concrete planning, it is difficult to complete the duties of control. It is because
 - A. employees are lazy.
 - B. there is no standard for assessment.
 - C. the relationship between superiors and subordinates is not clear.
 - D. it violates the principle of division of work.

4. Which of the following is a contra item in the cash book?
 - A. The bank deposited the loan into the bank account of the enterprise directly.
 - B. The enterprise paid rent by cash.
 - C. The owner withdrew bank deposit for private use.
 - D. Deposited the cash of an enterprise into its bank account.

5. Which of the following statements about the over-the-counter market are correct?
 - (1) Shares cannot be traded in that market.
 - (2) No commission is incurred in transactions in that market.
 - (3) The securities traded in that market do not need to meet the listing requirements.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

6. During the process of communication, if the receiver is not required to give feedback, which of the following is correct?
- A. It is not a two-way communication.
 - B. Decoding does not exist.
 - C. It is a non-verbal communication.
 - D. Receiver has distortion.
7. Mr. Lai's enterprise purchased a property with a cost of \$5 000 000 in 20X3. At 20X6, he expected his enterprise would close down within a year, he then adjusted the value of the property upward according to the market value and recorded in the books. Which accounting concept or principle has his action violated to?
- A. Accrual concept
 - B. Historical cost principle
 - C. Going concern concept
 - D. Did not violate to any accounting concept or principle
8. Some listed companies will release the results quarterly. Which of the following stakeholders can be protected?
- A. Employees
 - B. Investors
 - C. Consumers
 - D. Suppliers of raw materials

Based on the following information, answer Question 9 to 10:

Kelly and Fu are both 25 years old, and they are planning to get married 1 year later. Therefore, they decide to put \$185 000 for investment and expect to get back \$200 000 to pay for the marriage expenses.

9. The following are different investment plans:

Plan 1: The half-yearly interest rate is 5%, interest is compounded half-yearly.

Plan 2: The interest rate per annum is 7%, interest is compounded yearly.

Plan 3: The interest rate per annum is 8%, interest is compounded yearly.

Which plan should Kelly and Fu choose?

- A. Plan 1
- B. Plan 2
- C. Plan 3
- D. All of the above

10. As both Kelly and Fu need to support their parents, which of the following is most likely to be the leading financial need of Kelly and Fu?
- A. Retirement planning
 - B. Buying a car
 - C. Join a life insurance plan
 - D. Estate planning
11. Which of the following errors will affect the agreement of the trial balance?
- A. Repayment from Mr. Ng is wrongly recorded in the account of Ms. Ng.
 - B. Credit purchases of \$200 from Ms. Leung was wrongly recorded as \$2 000 in the purchases journal.
 - C. Credit purchases from Mr. Fong was omitted.
 - D. Only the cash account was debited when the owner injected cash.
12. Which of the following methods can achieve the highest degree of risk diversification?
- A. Invest in balanced funds
 - B. Invest in shares of two large-scaled banks at the same time
 - C. Invest in shares of a large-scaled bank and a large-scaled property developer at the same time
 - D. Invest in bonds of a large-scaled bank and shares of a large-scaled property developer at the same time
13. Mr. Chan, who is a property broker, decides to enroll in a part-time degree course and apply loans to pay for the school fee. As most of his income comes from commission, his income is unstable. Which of the following consumer credit suits Mr. Chan the most?
- A. Personal installment loan
 - B. Personal overdraft
 - C. Non-revolving credit
 - D. Mortgage loan
14. Company ABC is a small and medium enterprise (SME). Company ABC often finds new business opportunity. However, it does not have capital to invest for new equipment, and thus, it cannot develop new business. Which of the following items is the difficulty of SMEs which can be reflected in the case of Company ABC?
- A. Sources of capital are limited
 - B. Innovative
 - C. Low market share
 - D. Decision making is subjective
15. Which of the following is not a function of the Hong Kong Monetary Authority?
- A. Register banks as registered institutions
 - B. Monitor the authorised institutions under the Banking Ordinance
 - C. Authorise investment products offered to the public
 - D. Manage the Exchange Fund

16. Which of the following are the duties of the financial management department of a supermarket?

- (1) Ensure the cash is sufficient to pay for the suppliers.
- (2) Calculate the total value of inventory.
- (3) Raise capital for the expansion of new branches.

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

17. From the point of view of a franchisor, which of the following is the disadvantage of franchising?

- A. The operators lack the autonomy on decision making.
- B. The expansion rate of branches is out of control.
- C. The image of the enterprise will be affected by the behaviours of the operators.
- D. The franchisees are required to pay costly royalty.

18. The following were the sales record of Green Enterprise in January 20X4:

20X4	Details
January 2	Sold goods to Mr. Chan with a total of \$300 in cash.
January 8	Sold goods with a listed price of \$500 to Ms. Lee on credit, and provided a 5% trade discount.
January 15	Sold goods with a listed price of \$900 to Wong's Company on credit.
January 23	Sold goods with a listed price of \$250 to Mr. Cheung in cash, and provided a 2% trade discount.

The amount that should be recorded in the sales journal of Green Enterprise in January 20X4 was _____.

- A. \$1 375
- B. \$1 400
- C. \$1 920
- D. \$1 950

19. In a clothing chain store, which of the following should be the duty of the top management?

- A. Human resources management of the branches
- B. Exploration of the new product lines
- C. Negotiations with the suppliers
- D. Introduction of new fashion to the customers

20. Which of the following are the reasons that the government should support small and medium enterprises (SMEs)?
- (1) SMEs provide job opportunities.
 - (2) SMEs can develop creative products.
 - (3) SMEs' businesses focus in Hong Kong.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
21. Which of the following items will not appear on the income statement of a service firm?
- A. Cost of goods sold
B. Expenses
C. Other revenues
D. Net profit
22. Which of the following about the principles of effective management are correct?
- (1) Some subordinates will try their best to reduce the objective level.
 - (2) Division of work may not improve efficiency.
 - (3) Unity of direction can reduce the waste of resources.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
23. When a superior delegates the subordinate to take in charge of a project, the superior should
- (1) provide appropriate assistant.
 - (2) ensure the subordinate equips with the related skills.
 - (3) provide sufficient resources to the subordinate.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)

24. Company A is a manufacturer of beverages in a foreign country. Company B is a local fruits supplier. Company A proposes to form a joint venture with Company B, in order to produce and sell fruit juice in Hong Kong. From the perspective of the two companies, which of the following is the advantage of forming a joint venture?
- A. Its establishment obtains specific objective.
 - B. It can perform the advantages of the two companies.
 - C. It can assist Company B to explore the overseas market.
 - D. It enables Company A to obtain the techniques from Company B.
25. Which of the following accounts may have a credit balance?
- A. Cash
 - B. Drawings
 - C. Bank deposit
 - D. Office equipment

Based on the following information, answer Question 26 to 27:

Mars Enterprise had the following account balances as at 31 December 20X3:

	\$
Inventory, as at 31 December 20X3	60 650
Cash	7 330
Office equipment	58 390
Accounts payable	10 520
Accounts receivable	8 740
Bank overdraft	3 100

26. The amount of net current asset of Mars Enterprise as at 31 December 20X3 was _____.
- A. \$2 450
 - B. \$63 100
 - C. \$69 300
 - D. \$121 490
27. The quick ratio of the enterprise as at 31 December 20X3 was _____.
- A. 1.18:1
 - B. 1.82:1
 - C. 5.63:1
 - D. 9.92:1

28. Some commercial enterprises are willing to pay high prices to international research companies, in order to buy their market research reports. It is because
- A. the contents of these reports are relatively brief.
 - B. these reports can be downloaded from the Internet.
 - C. these reports include the latest market information.
 - D. these reports are not applicable.

29. Which of the following statements about organisation chart is correct?

- A. The top level of organisation chart is the frontline management.
- B. The organisation charts of the small enterprises are tall.
- C. Clear organisation chart can help to achieve the unity of command.
- D. Only the large enterprises are required to create organisation charts.

30.

	Company A	Company B
Gross profit ratio	50%	45%
Net profit ratio	20%	20%
Current ratio	2:1	3:1
Quick ratio	1:1	2.5:1

The above table shows the information of the two companies for the year 20X2. According to the above information, which of the following conclusions can be drawn?

- A. The net profits of Company A and Company B were the same.
- B. Company A had a higher expense-to-sales ratio than Company B.
- C. Company A had a better quick ratio than Company B.
- D. Company A had more inventory than Company B.

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 3 are compulsory. You are required to answer Question 4 or 5 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		
Total		

3. Mr. Yeung is operating a boutique. He had the following records related to purchases in January 20X4:

20X4

- January 3 Purchased goods of \$1 000 from Ms. Chan on credit.
- January 5 Purchased goods of \$500 from Mr. Lee in cash.
- January 8 Returned damaged goods of \$200 to Ms. Chan.
- January 11 Purchased goods of \$2 000 on credit from Ms. Cheung and enjoyed a 5% trade discount.
- January 15 Purchased goods of \$1 200 on credit from Wong's Enterprise and enjoyed a 5% trade discount. An extra 3% cash discount could be enjoyed if it was repaid within 10 days.
- January 19 Returned goods with a listed price of \$100 to Ms. Cheung.
- January 24 Credit purchases from Mr. Ho and Ms. Lam of goods valued \$1 500 and \$800 respectively.
- January 27 Purchased 10 units of goods of a listed price of \$130 each from Mr. Fong on credit, and enjoyed a 2% trade discount.

(a) Prepare the purchases journal and returns outwards journal of January 20X4 for Mr. Yeung, and post the amount to the related accounts in the general ledger at the end of the month. (8 marks)

(b) Mr. Yeung purchased clothing of \$200 from Mr. Lee for personal use on 31 January. Should he record this transaction in the books of the enterprise? Explain. (2 marks)

Answer written in the margins will not be marked.

Answer Question 4 or 5.

4. Ms. Lin and Mr. Mok formed a partnership to run a jewel company. Ms. Lin is responsible for the design and Mr. Mok is responsible for the production. Recently, they plan to increase the production and export to the Mainland, so as to expand its business.

(a) If Ms. Lin and Mr. Mok are successful entrepreneurs, state two characteristics that they should have.

(4 marks)

(b) As compared with sole proprietorship, list two reasons to explain why Ms. Lin should form a partnership with Mr. Mok.

(4 marks)

(c) How can the "Mainland and Hong Kong Closer Economic Partnership Arrangement" (CEPA) help the business plan of the jewel company? State one of them.

(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.

5. Mr. Chiu forgot to repay credit card debts, penalty and interest were imposed by bank. However, Mr. Chiu thought that it was unacceptable because the penalty was too high and the calculation of interest was hard to understand.

The bank responded that the arrangement of penalty and interest has been clearly stated on the agreement of the credit card. However, Mr. Chiu still complained that the font used in the agreement was too small, and the content was too long and with many technical terms. Hence, it was difficult to understand.

(a) According to Mr. Chiu's comment, which principles of effective communication do the agreement of credit card violate to? State two of them. (4 marks)

(b) Explain whether credit card belongs to revolving credit or non-revolving credit. (2 marks)

(c) (i) If Mr. Chiu refuses to repay the credit card debts, his personal credit rating will fall. How will it affect Mr. Chiu? (2 marks)

(ii) Besides past delinquency record, list two factors that will affect the personal credit record. (2 marks)

END OF PAPER

Answer written in the margins will not be marked.

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HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION
MOCK PAPER 2014

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. State two functions of risk management. (4 marks)
2. Illustrate two reasons that a large scaled Hong Kong style restaurant is suitable to adopt a differentiated marketing in Hong Kong and the Mainland markets. (4 marks)
3. Explain two advantages for a garment factory to provide training to its workers. (4 marks)
4. List three factors affecting the customer loyalty of a telecommunication service provider. (6 marks)
5. List three importance of marketing research. (6 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

6. Mei Mei Limited is a listed company operating in Hong Kong. It has been supplying Hong Kong style restaurants with evaporated milk (known as Mei Mei evaporated milk) for milk tea brewing, and its product is not opened to individual consumers for retail sales. In response to many local individual consumers wishing to buy Mei Mei evaporated milk to brew milk tea at home, Mr. Chan, the CEO of Mei Mei Limited considered of entering the retail market, and called for a meeting with the management to discuss.

Mr. Chan said, "I would like to discuss on two issues today. Firstly, what should we consider when we enter the retail market? Secondly, what are our target markets and marketing strategies when we enter the retail market?"

Miss Cheung, the marketing manager, said, "to succeed in entering the retail market, we have to choose an effective marketing segmentation carefully. Besides, local eatery is different from retail market, the packaging for the two markets should be different. I suggest we can continue the tin-can packing for the eatery while plastic individual wrapping with smaller volume can be used for individual consumers."

Mr. Li, the operations manager, said, "we have to purchase a new machine for packing the evaporated milk for retail. Can we obtain a loan from the bank for the purchase of the new machine?"

Miss Wong, the Chief Financial Officer responded, "the company has plenty of retained earnings and we can use them for the purchase. There is no need to obtain a bank loan."

REQUIRED:

- (a) State two factors Mei Mei Limited should consider before entering the retail market of evaporated milk. (4 marks)
- (b) Suggest Mei Mei Limited with two effective bases for market segmentation of the retail market of evaporated milk. (4 marks)
- (c)(i) Illustrate one difference between business market and consumer market shown by the suggestion of Miss Cheung. (2 marks)
- (ii) Apart from the difference in (c)(i), state two differences between the business market and consumer market of evaporated milk. (4 marks)
- (d)(i) List two reasons for supporting Mei Mei Limited to purchase the new machine with retained earnings rather than bank loans. (4 marks)
- (ii) Apart from the above method, suggest Mei Mei Limited with two sources of financing for the purchase of the new machine. (2 marks)

(Total: 20 marks)

7. Venus Group is a large-scaled local smartphone producer, it has established factory in the Mainland to produce mobile phone.

As the group was rushing to finish off a batch of smartphone, the workers of the factory in the Mainland has been overtime-working for months. In order to complete the production before the deadline, the frontline supervisors implemented different measures to urge workers to work hard. They include limiting the frequency of going to toilet of the workers during working hours, thus the workers did not dare to go even they were in need, and they were prohibited to chat. When it was one month away from the deadline, the progress of actual production was found behind schedule. The group worried that it could not complete the production before the deadline.

The management of the Venus Group held an urgent meeting and discuss on how to speed up the production. Mr. Ma, the CEO, said, "I suggest to raise the productivity of current workers, so as to cope with the production peak."

Miss Mak, the human resources manager responded, "I agree. And we can also consider increasing the labour supply of the factory to speed up the production."

Mr. Cheung, the financial manager said, "apart from the expected volume being below standard, average cost of components consumed for each smartphone is higher than budgeted while the sales of smartphone are lower than expected in the last financial year, a remedial is needed."

- (a) Explain one need of the workers that was being exploited with Maslow's Hierarchy of Needs Theory. (2 marks)
- (b) Answer the following questions with McGregor's Theory X and Theory Y:
- (i) Illustrate which theory was adopted by the frontline supervisors of the factory to manage the workers. (2 marks)
- (ii) Apart from the methods mentioned in the above passage, suggest Venus Group with one method to raise the productivity of the workers based on the assumption of the theory in (b)(i). (2 marks)
- (c) List one method that Venus Group can increase the labour supply of the factory. (2 marks)
- (d) (i) For (1) the cost of components and (2) the sales of the smartphones, suggest one reason and one example for each to explain why there was a variance between the actual quantity and the budgeted quantity of Venus Group in the last financial year. (4 marks)
- (ii) Suggest Venus Group with one method to eliminate the two variances in (d)(i) respectively. (4 marks)
- (Total: 16 marks)**

SECTION C (20 marks)

Answer **ONE** question in this section.

8. A chained supermarket plans to fill up the vacancy of branch manager through external recruitment.
- (a) Suggest the possible forms of compensation for the supermarket branch manager with examples, and state one supporting reason for each of the forms. (8 marks)
 - (b) Discuss the benefits and the shortcomings of filling up the vacancy of branch manager through external recruitment for the supermarket in contrast with internal recruitment. (12 marks)
- (Total: 20 marks)**
9. Smart watch is a new product in the market. A manufacturer of consumer electronics plans to develop a smart watch of its own brand.
- (a) Explain how the manufacturer can evaluate whether to invest in the project of smart watch using the capital investment appraisal methods. (12 marks)
 - (b) Suggest for the appropriate marketing mix strategies for the smart watch. (8 marks)
- (Total: 20 marks)**

END OF PAPER

B2x / B4x

SUGGESTED SOLUTION

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
PAPER 1

Section A

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

1.
Answer: D
Economic factors include the market demand, production cost and etc. The protection of intellectual property rights is responsible by the government, and thus, it should be a government factor.
2.
Answer: C
(1) is incorrect. According to the consistency principle, enterprises should adopt the same accounting policy. If changes are needed, it should be disclosed in the financial statements. Thus, this is not a limitation of analysing the financial statements of a single enterprise.
(2) is correct. Financial statements only reflect the performance of the enterprise in the past, but the trend may not be persisted.
(3) is correct. Financial statements only reflect information in monetary terms, and non-quantitative information cannot be shown.
3.
Answer: B
Control is to assess and ensure the project is proceeded as planned. If there is no concrete planning, there is no standard for assessment.
4.
Answer: D
A contra item refers to an item that its double entry can be finished within the cash book, i.e. the transaction only involves cash and bank accounts.
A is incorrect. When the bank deposited the loan into the bank account of the enterprise directly, the enterprise should debit the bank account and credit loan from bank account.
B is incorrect. The enterprise paid rent by cash should debit rent account and credit cash account.
C is incorrect. The owner withdrew bank deposit for private use should debit drawings account and credit bank account.
D is correct. Deposited the cash of an enterprise into its bank account should debit bank account and credit cash account.
5.
Answer: C
(1) is incorrect. Different types of financial tools including shares can be traded in the over-the-counter market.
(2) is correct. The over-the-counter market does not involve brokers and thus no commission is charged.
(3) is correct. Securities traded in the over-the-counter market do not need to meet the listing requirements.
6.
Answers: A
A is correct. The communication, which is not required to give feedback, is called a one-way communication.
B is incorrect. No matter it is a one-way or two-way communication, the receiver has to decode the message.
C is incorrect. Non-verbal communication may still require the feedback from the receiver.
D is incorrect. Feedback can minimise distortion. However, no feedback does not mean the existence of distortion.
7.
Answer: D
A is incorrect. According to the accrual concept, revenues and expenses should be recognised when they are earned or incurred. Accrual concept is not related to this question. B and C are incorrect, D is correct. According to the going concern concept, if an enterprise will continue to be operated in the foreseeable future, historical cost principle is relevant, and assets should be valued at historical cost. However, if an enterprise is expected to close down soon, historical cost principle is no longer relevant and asset should be valued at the current market value. Thus, the action of Mr. Lai did not violate to any accounting concept or principle.
8.
Answer: B
When the listed companies release results quarterly, investors can understand their financial states, in order to make correct investment decisions.
9.
Answer: A
The following are the sum of the capital Kelly and Fu can get back after 1 year for different investment plans:
Plan 1 : $\$185\,000 \times (1+5\%)^2 = \$203\,962.5$
Plan 2 : $\$185\,000 \times (1+7\%)^1 = \$197\,950$
Plan 3 : $\$185\,000 \times (1+8\%)^1 = \$199\,800$

Only Plan 1 can offer more than \$200 000 after 1 year, so they should choose Plan 1.

10.

Answer: C

A, B and D are incorrect. Kelly and Fu are in the young single stage. Retirement planning, car purchase and estate planning are not the main financial needs of young singles. These are also unrelated to the fact that they need to support their parents.

C is correct. Kelly and Fu are in the young single stage. As Kelly and Fu need to support their parents, they need to buy life insurance to mitigate against the possible financial burden that may be resulted due to their own death.

11.

Answer: D

A is incorrect. This error did not affect the balance of accounts receivable, so the agreement of the trial balance will not be affected.

B is incorrect. Since both the total of debit balances and credit balances were overcast by \$1 800, the agreement of the trial balance will not be affected.

C is incorrect. Since both the entries on the debit side and credit side were omitted, the agreement of the trial balance will not be affected.

D is correct. Since the record of "credit capital account" was omitted, the total of debit balances would be larger than the total of credit balances on the trial balance, causing a disagreement of the trial balance.

12.

Answer: A

A is correct. Investors can diversify risk by investing in different types of asset class and shares in different industries. Balanced fund is an instrument combines equity and fixed income instruments in a single fund. It can achieve the highest degree of risk diversification in this case.

B is incorrect. Investing in the same industry and asset class can achieve the lowest degree of risk diversification in this case.

C is incorrect. Investing in different industry but the same asset class can achieve the second lowest degree of risk diversification in this case.

D is incorrect. The asset class and the number of industries involved in this option is smaller than that of balanced funds, so its degree of risk diversification is lower than the latter in this case.

13.

Answer: B

A and C are incorrect. Personal installment loan and non-revolving credit have fixed

repayment schedules.

B is correct. The income of Mr. Chan is unstable, it is more suitable for him to choose a repayment method with higher flexibility. Personal overdraft is the only consumer credit without a fixed repayment schedule in the question.

D is incorrect. A mortgage loan is a loan used for property purchase, but it is not suitable for paying school fee.

14.

Answer: A

A is correct. SMEs are small in scale. Internal sources of financing are the major sources of capital for SMEs.

B is incorrect. The provision of innovative product is the contribution of SMEs. It is not a difficulty.

C is incorrect. Low market share is a characteristic of SMEs. It is not a difficulty.

D is incorrect. Subjective decision making can improve the efficiency. Hence, it is not necessarily to be a difficulty.

15.

Answer: C

A is incorrect. The Hong Kong Monetary Authority is responsible for registering banks as registered institutions.

B is incorrect. The Hong Kong Monetary Authority is responsible for monitoring the authorised institutions under the Banking Ordinance. Authorised institutions include licensed banks, restricted licence banks and deposit-taking companies.

C is correct. This is a duty of the Securities and Futures Commission.

D is incorrect. The Hong Kong Monetary Authority is responsible for managing the Exchange Fund.

16.

Answer: D

The duties of the financial management department is to ensure the capital of the enterprise to be utilised effectively, for example, maintain an appropriate level of cash for daily operations, avoid excess inventory, evaluate various capital raising methods and etc.

17.

Answer: C

A is incorrect. This is the disadvantage from the point of view of the franchisees.

B is incorrect. Franchising can speed up the rate of expansion, but it is not out of control.

C is correct. If the franchisees run the business improperly, the image of the franchisor will be affected.

D is incorrect. From the point of view of a franchisor, this is an advantage.

18.

Answer: A

A is correct. Sales journal records credit sales only, and the amount recorded should deduct the trade discount first. Thus, the amount to be recorded in the sales journal of Green Enterprise in January 20X4 was $\$500 \times (1 - 5\%) + \$900 = \$1\,375$.

B is incorrect. Students choosing this option may forget to deduct the trade discount.

C and D are incorrect. Students choosing this option may think transactions of cash sales should also be recorded in the sales journal.

19.

Answers: B

A is incorrect. Top management is with more conceptual skills. The branch management belongs to the daily operation, more technical skills are required.

B is correct. Top management is with more conceptual skills, i.e. understanding the trends and business opportunities of the market. This can help to explore new product lines.

C is incorrect. Top management is with more conceptual skills. More interpersonal skills are required during the negotiation process.

D is incorrect. Top management is with more conceptual skills. The frontline promotion belongs to the daily operation, more technical skills are required.

20.

Answer: A

The government should support the SMEs because they have contribution to the economy of Hong Kong.

(1) is correct. In Hong Kong, more than half of the job opportunities are provided by the SMEs.

(2) is correct. As the operations of SMEs are flexible, it is easier for them to develop creative products.

(3) is incorrect. It is not necessary for SMEs' businesses to focus in Hong Kong.

21.

Answer: A

A is correct. Service firms earn profits by providing services, which does not involve any goods. So, cost of goods sold will not exist.

B, C and D are incorrect. Same as a trading firm, a service firm has expenses and other revenues. So, these items are shown on the income statement, and net profit will be calculated.

22.

Answer: D

(1) is correct. Generally, workers will avoid working pressure. Moreover, they believe their superiors will oppress them by setting a higher objective.

(2) is correct. Under the division of work, the

various working procedures are interdependent. When one of them postpones, the entire schedule will be affected.

(3) is correct. Under the unity of direction, all people in the enterprise are heading for the same direction. It can reduce the wastage of time and resources.

23.

Answer: D

(1) is correct. Superior should listen to the subordinate's report, and provide appropriate assistant.

(2) is correct. If the subordinate does not equip with the related skills, he cannot complete the job.

(3) is correct. If the subordinate has insufficient resources, he cannot complete the job.

24.

Answer: B

A is incorrect. This is a characteristic of a joint venture, but not an advantage.

B is correct. Company A produces beverages and Company B supplies fruits. The joint venture can employ the techniques of the two companies.

C is incorrect. Both Company B and the joint venture are local companies.

D is incorrect. For Company A, this is an advantage. However, it is a disadvantage for Company B.

25.

Answer: C

A is incorrect. Cash is an asset of an enterprise, and the enterprise cannot spend more cash than it has, so it must have a debit balance.

B is incorrect. Drawings will reduce the amount of capital, so it must have a debit balance.

C is correct. When an enterprise spends more than its bank deposit, there will be a bank overdraft. That is, a credit balance exists.

D is incorrect. Office equipment is an asset of an enterprise, so it must have a debit balance.

26.

Answer: B

Net current asset

= Current assets – Current liabilities

= (Inventory + Accounts receivable + Cash) – (Accounts payable + Bank overdraft)

= (\$60 650 + \$8 740 + \$7 330) – (\$10 520 + \$3 100)

= \$63 100

A is incorrect. Students choosing this option may not add the inventory when calculating the current assets.

C is incorrect. Students choosing this option may treat bank overdraft as a current asset.

D is incorrect. Students choosing this option

may think office equipment is included in the current assets.

27.

Answer: A

Quick ratio

= (Current assets – Inventory) / Current liabilities

= (\$8 740 + \$7 330) / (\$10 520 + \$3 100)

= 1.18:1

B is incorrect. Students choosing this option may treat bank overdraft as a current asset.

C is incorrect. Students choosing this option may think quick ratio equals to current assets divided by current liabilities.

D is incorrect. Students choosing this option may think office equipment is included in the current assets and inventory is included in calculating the quick ratio.

28.

Answer: C

A is incorrect. In general, the market research reports of international research companies are very detailed.

B is incorrect. Many reports can be downloaded from the Internet. However, the commercial enterprises will not buy them if there is no quality business information.

C is correct. Timeliness is a characteristic of quality business information. Hence, if the reports include quality business information, the commercial enterprises will be willing to buy them, in order to seize more market opportunities.

D is incorrect. If the reports are not applicable, it means that the content of the reports is not related to the businesses of the commercial enterprises. Hence, no commercial enterprises are willing to buy them.

29.

Answer: C

A is incorrect. The top level of organisation chart is the top management.

B is incorrect. As there are fewer number of people in a small enterprise, the levels of management are fewer, and thus, each top management is required to take many duties. As the span of control is wide, the organisation chart is relatively flat.

C is correct. Organisation chart shows the relationship between workers. If the relationship between the superiors and the subordinates become clear, the subordinate should avoid receiving commands from different superiors.

D is incorrect. Organisation chart shows the relationship between workers. No matter it is a small or a large enterprise, an organisation chart is required.

30.

Answer: B

A is incorrect. Although the net profit ratios of the two companies were the same, but net profit ratio only reflected the ratio of net profit to sales. Without other data, the actual amount of net profit cannot be calculated.

B is correct. Gross profit ratio and net profit ratio reflect the gross profit and net profit to sales respectively, and the difference between them is the ratio of expenses to sales. According to the above table, the difference of Company A was 30% (50% - 20%), and that of Company B was 25% (45% - 20%). Thus, the expenses-to-sales ratio of Company A was higher than that of Company B.

C is incorrect. Different industries have different operation situations, and there is no standard to define the best quick ratio.

D is incorrect. Current ratio and quick ratio reflect the current assets and current assets less inventory to current liabilities respectively, and the difference between them is the ratio of inventory to current liabilities. From the above table, we can only conclude the ratio of inventory to current liabilities of Company A is higher than Company B. Without other data, the actual amount of inventory cannot be calculated.

Section B

1.

Effects:

- Sources of overseas revenue increase: Local retail enterprises can establish online shops. Hence, the consumers from overseas can buy their products.
- Competition from abroad increases: Local consumers can consume in the overseas online shop. Hence, local retail enterprises have to face competition from abroad.
- Transportation costs increase: As online consumers may come from other countries, the local retail enterprises will increase the demand for transportation.

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

2.

Capital 1 should be deposited in his savings account (1 mark). It is because this sum of money is for emergency use, higher liquidity is needed (1 mark), and the liquidity of savings deposit is higher than that of shares (1 mark).

Capital 2 should be invested in shares (1 mark). It is because Peter's son will go to university in more than 10 years time, so he will not need to get back the sum of money shortly / the income of Peter is higher so he can bear a higher risk (1 mark), so he should invest in shares for a higher return (1 mark).

3.(a)

Purchases Journal			Marks
Date	Details	Amount	
20X4		\$	
Jan 3	Ms. Chan	1 000	1/2
Jan 11	Ms. Cheung \$2 000 x (1 – 5%)	1 900	1
Jan 15	Wong's Enterprise \$1 200 x (1 – 5%)	1 140	1
Jan 24	Mr. Ho	1 500	1/2
Jan 24	Ms. Lam	800	1/2
Jan 27	Mr. Fong \$130 x 10 x (1 – 2%)	1 274	1
Jan 31	Total credit purchases for the month	7 614	

- The partners can bear the business risks together.
- (2 marks for each relevant reason, max. 4 marks)

(c)

Help:

- The jewel, of which the origin is Hong Kong, can enjoy tariff-free treatment when exporting to the Mainland.
- Hong Kong and the Mainland will strengthen their cooperation in intellectual property right (IPR) protection. Hence, the design of jewel products can be protected.

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

Returns Outwards Journal			Marks
Date	Details	Amount	
20X4		\$	
Jan 8	Ms. Chan	200	1/2
Jan 19	Ms. Cheung \$100 x (1 – 5%)	95	1
Jan 31	Total returns outwards for the month	295	

5.(a)

Principles of effective communication:

- Clarity: The font used in the agreement is too small. User is hard to read.
- Conciseness: The content of the agreement is too long. User is difficult to concentrate and read.
- Conciseness: The terms used in the agreement should be easy to understand, otherwise, user will not understand.

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

(b)

Revolving credit (1 mark). Card issuers will pre-set a credit limit. Cardholder can consume within the limit (1 mark).

(c)(i)

When Mr. Chiu applies for loan again, he may require to pay a higher interest rate, or has a larger chance to be rejected (2 marks).

(ii)

Factors:

- Outstanding debt
- Repayment history
- Credit history

(1 mark for each relevant factor, max. 2 marks)

General ledger

Purchases		
20X4		\$
Jan 31	Total for the month	7 614

Returns Outwards		
20X4		\$
Jan 31	Total for the month	295

(1 mark for each account)

(b)

No (1 mark). According to the business entity concept, the enterprise is a separate legal entity from its owner(s) (1 mark). So, private transaction of Mr. Yeung should not be recorded in the enterprise's books.

4.(a)

Characteristics:

- Take initiatives: They should actively participate in jewel exhibitions.
- Seek new opportunities: They should introduce different types of new jewel products.
- Adopt innovative ideas: They should accept innovative ideas and catch up with the latest jewel trends.

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

(b)

Reasons:

- The sources of capital of partnership are more than that of sole proprietorship.
- The division of work allows each partner to perform his / her own expertise.

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 2B

Section A

1.
Functions:
- Identify and evaluate the potential risks in the operations of the company
 - Enable the company to avoid risks through adopting the most appropriate strategies and measures
 - Control the risks faced by the company to minimise the loss incurred

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

2.
Reasons:

- The taste of the customers in Hong Kong and the Mainland are different. The use of differentiated marketing can satisfy their different wants better and thus boost the overall sales.
- The Hong Kong style restaurants in Hong Kong and the Mainland face intense competition, differentiated marketing is needed to distinguish the product of the group.

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

3.
Advantages:

- Enable the workers to acquire the correct working skills and attitude, so as to protect their health and safety
- Enable the workers to acquire new skills and knowledge, so as to promote their personal development
- Increase the productivity of the workers as well as the competitiveness of the factory

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

4.
Factors:

- Customer satisfaction: How far a customer perceives the telecommunication service's performance can match his / her expectation.
- The effectiveness of the communication with customers: The ability of the telecommunication service provider to provide timely, accurate and needed service information to the customers.
- The effectiveness of handling customer complaints: Whether the telecommunication service provider can handle complaints effectively.

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

5.
Importance:

- Enable an enterprise to understand the current operating environment, so as to identify and evaluate the market opportunities and threats
- Enable an enterprise to know the characteristics of each market segments, so as to choose the most appropriate target market
- Provide an enterprise with the research findings to formulate and implement marketing strategies to satisfy consumer needs
- Evaluate the actual marketing performance of an enterprise

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

Section B

- 6.(a)

Factors:

- The scale and growth rate of the retail market of evaporated milk
- The strengths and the number of competitors
- The number of the substitutes of evaporated milk
- Whether the payback period of the retail market is complied with the objective and resources of Mei Mei Limited

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

- (b)

Bases for market segmentation:

- Demographic segmentation: age, sex, income, occupation, family life cycle and education level, e.g. targeting young couples
- Psychographic segmentation: social class, life style, hobbies and personality characteristics, e.g. targeting consumers who love cooking

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

- (c)(i)

Difference:

- Different purpose of purchase: Individual consumers purchase evaporated milk for consumption while business buyers purchase for production, so the former needs evaporated milk with smaller volume and individual packages.
- Different volume of each purchase: The volume of each purchase of individual consumers is smaller than business buyers, so the former needs evaporated milk with smaller volume and individual packages.

(2 marks for each relevant difference, max. 2

marks)

- (ii)

Differences:

	<i>Business market</i>	<i>Consumer market</i>
Number of buyers	fewer	more
Relationship with sellers	longer term	shorter term
Purpose of purchase (If the student does not mention in (c)(i))	production	consumption
Volume of each purchase (If the student does not mention in (c)(i))	larger	smaller

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

- (d)(i)

Reasons:

- Lower cost: The use of retained earnings does not involve transaction cost and interest.
- Higher flexibility: Mei Mei Limited can use the retained earnings at any time, and no approvals is needed; borrowing from banks needs the approval of banks.

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

- (ii)

Sources of financing:

- Issue bonds
- Issue shares
- Lease

(1 mark for each relevant source, max. 2 marks)

- 7.(a)

Need:

- Physiological needs: The workers did not have the autonomy of going to toilet / the workers did not dare to go to toilet.
- Social needs: The workers were prohibited from chatting with their colleagues.

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

- (b)(i)

Theory X (1 mark). It is because the frontline supervisors forced the workers to work with coercion (1 mark).

(ii)

Theory X assumes that workers can be motivated once their lower-ordered needs are fulfilled (1 mark), so Venus Group can motivate the workers by offering attractive financial incentives (1 mark).

(c)

Methods:

- Temporary hiring: Hire temporary workers
 - Permanent hiring: Hire permanent workers
 - Outsource some of the production stages
- (2 marks for each relevant method, max. 2 marks)

(d)(i)

(1)

Reasons	Examples
More consumption of components for each unit of output	The workers were unskilled / robbery of the components
The purchase price of components rose	Purchased components with higher quality / the purchase price of components rose beyond expectation

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

(2)

Reasons	Examples
Price fell	Lowered price to boost sales
Sales volume fell	The competition of the industry was more intense than expectation / hired inexperienced salespersons

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

(d)(ii)

(1)

Methods:

- Provide more training to the workers to minimise the wastage of components
- Enhance the security of the component warehouse

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

(2)

Methods:

- Enhance the fame of the brand
- Hire experienced salespersons

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

Section C

8.(a)

Forms of compensation and examples	Reason
The provision of base salary only: e.g. hourly or monthly pay	- Salaries are easy to be calculated.
Base salary plus commission: e.g. a commission is linked to the sales of the branch the manager belongs to	- As a commission is linked to sales, it can motivate the manager to boost sales effectively.
Base salary plus bonus: e.g. a bonus is linked to the performance of the manager	- As a bonus is linked to performance, it can motivate the manager to work harder. - As the bonus is not guaranteed, it lowers the financial burden on the supermarket.

(2 marks for each relevant form and example, 1 mark for each relevant reason, max. 8 marks)

(b)

Benefits:

- Bring in new skills and insights: The supermarket can recruit new managers with skills that cannot be found among existing employees, e.g. the skill of handling frozen meat. New members can also bring new insights to the supermarket, such as ideas of introducing new products.
- More choices for selection: The internal manpower source is limited to the existing employees of the supermarket, the supply of external manpower source is larger than the internal manpower source.
- Less training is needed: The supermarket can hire an experienced branch manager directly, and thus the training required is less than training the existing staff who has no experience of managing a supermarket.

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

Shortcomings:

- Higher recruitment cost: For example, the supermarket needs to post job advertisement to attract external candidates; while a lower cost way (e.g. deliver email to the existing employees) can be adopted through internal recruitment.
- More screening is required: The supermarket is less familiar with external candidates, thus more complex interviews

and longer time of screening are needed.

- More orientation is needed: The external candidates are not familiar with the company's operations and culture, and thus more orientation is needed to help them adapt.
 - Lower morale of the existing employees: If the existing employees see less chance for promotion, their morale may be adversely affected or even quit jobs.
- (3 marks for each relevant shortcoming, max. 6 marks)

9.(a)

- Payback period: It measures the time the manufacturer takes to recover the investment of the smart watch project. If the payback period is equal to or less than the maximum payback period allowed, it should accept the project.
- Net present value (NPV): It equals to the present value of future cash inflows of the smart watch project less the initial outlay. If the NPV of the project is greater than or equal to 0, the manufacturer should accept the project.
- Internal rate of return (IRR): It refers to the discount rate at which NPV of the smart watch project is 0. If the IRR is greater than or equal to the required rate of return of the manufacturer, it should accept the project.
- Accounting rate of return (ARR): It measures the average annual net profit generated per dollar of average investment of the smart watch project. If the ARR of the project is greater than or equal to the targeted rate of return of the manufacturer, it should accept the project.

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

(b)

Marketing mix strategies:

- Product: As the consumer acceptance of smart watches is relatively low, the company can provide the most basic model.
- Price: As innovators are willing to pay a higher price for a new product, the company can adopt a market skimming pricing.
- Promotion: The company can rely heavily on advertising and sales promotion activity to build product awareness.
- Place: The company can use selective distribution due to the high cost of setting up distribution network.

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