

BAFSSCHOOL OF THE HONG KONG ECONOMIC TIMES
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION
MOCK PAPER 2015

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. Answer **ALL** questions in Section A. There are two parts in Section B: Answer **ALL** questions in Part 1 and **ONE** of the two questions in Part 2.
4. Answers to Section A should be submitted online before 25 Jan 2015 (www.econschool.com/mock2015) while answers to Section B should be written on 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)

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

1. Miss Chan decides to set up a beauty salon in the form of partnership in Hong Kong, and invites a celebrity, Miss Lee as her partner in order to use her reputation to promote the business. However, Miss Lee will neither invest money into the beauty salon nor engage in the management and operations of the business. Therefore, Miss Lee can become the _____ partner of the beauty salon.
 - (1) general
 - (2) nominal
 - (3) limited
 - A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

2. Which of the following are the functions of Securities and Futures Commission (SFC)?
 - (1) Setting and enforcing market regulations
 - (2) Regulating the activities of financial intermediaries and setting licensing standards
 - (3) Administering the listing and trading rules
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

3. In Hong Kong, which of the following actions taken by a soft drink producer comply with the social responsibilities to both consumers and the government?
 - A. Use environmentally-friendly packages
 - B. Comply with the Trade Descriptions Ordinance
 - C. Promote more on the calculation of the calories of soft drink
 - D. Launch more beverages with low-calorie

4. Which of the following employees must make mandatory contributions to the MPF scheme?
 - A. A TV artist who is just over 70 years old
 - B. A telephone promoter with monthly income of \$6,000
 - C. A temporary restaurant waiter who signed a one-month contract
 - D. A summer intern who worked at a hotel for one month

5. Which of the following accounting principles and conventions has been violated if the owner asked his book-keeper to record all the transactions of his companies in the same books of accounts?
 - A. Accrual
 - B. Business entity
 - C. Consistency
 - D. Going concern

6. Which of following are the difficulties faced by the small and medium enterprises (SMEs) in Hong Kong in general?
- (1) It is difficult to practise division of work.
 - (2) Enterprises will be acquired by other parties easily.
 - (3) The ability of managing risk is low.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
7. Ming and Joyce are getting married. Yet, they do not have enough money to pay for the hotel banquet. As they are not well self-disciplined, they decided to choose a consumer credit with a fixed number of payments, so that they can pay off the loan in a gradual manner. Which of the following types of consumer credits are suitable for them?
- (1) Credit card
 - (2) Bank overdraft
 - (3) Personal loan
 - (4) Interest-free installment loan plan provided by the hotel
- A. (1) and (2) only
B. (3) and (4) only
C. (1), (2) and (3) only
D. (1), (2) and (4) only
8. Which of the following would not lead to a decrease in individual's credit score?
- A. A successful application for bankruptcy
 - B. A new mortgage loan is approved
 - C. An increase in the number of credit card applied in short term
 - D. An increase in the number of reviewing one's personal credit report

Based on the following information, answer Questions 9 - 10:

On 31 March 2015, Buckingham Company had current liabilities amounting to \$300 000. The current ratio was 5:1 and the quick ratio was 0.4:1.

9. What was the amount of its inventory on that date?
- A. \$120 000
 - B. \$300 000
 - C. \$1 380 000
 - D. \$1 500 000

10. Which of the following comments on the liquidity of Buckingham Company is correct?
- A. It has a higher proportion of funds tied up in inventory.
 - B. It has a higher liquidity.
 - C. It has more current liabilities.
 - D. It has more current assets to meet short-term obligations.
11. Which of the following transactions will not affect the total amount of capital of a business?
- A. The owner opened a business bank account from office cash.
 - B. The owner took an item of equipment to settle his own liabilities.
 - C. The owner repaid a creditor of the company using his own money.
 - D. The owner introduced a machine into the business.
12. David is considering to put \$100,000 into an investment plan, with the target of having a total amount of not less than \$105,000 (in terms of future value) of principal and interest after one year. Which of the following investment plan(s) is/are suitable for David?
- (1) Investment product A: Annual interest rate is 5.5%, calculated by simple interest annually
 - (2) Investment product B: Annual interest rate is 5%, compounded annually
 - (3) Investment product C: Annual interest rate is 4.5%, compounded half yearly
- A. (1) only
 - B. (1) and (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only
13. Which of the following will not affect the value of the effective rate of return?
- A. Investment horizon
 - B. Nominal rate of return
 - C. The amount of the capital
 - D. The frequency of compounding
14. Which of the following item(s) will be entered as purchases in the books of a bookstore?
- (1) Magazines on sale
 - (2) DVD related to the code of practice to the staff of the bookstore
 - (3) Biography for the owner's personal use
- A. (1) only
 - B. (2) only
 - C. (3) only
 - D. (1), (2) and (3) only

Consider the following case and answer Questions 15-16:

K-fashion is a Korean fashion brand whose target customer is young people, it is also popular in Hong Kong. Trendy Group is a multi-brands fashion retailer in Hong Kong. Recently, the group acquired the franchise of K-fashion and is planning to set up several branches of K-fashion in Hong Kong.

15. Which of the following is not the advantage of franchising to Trendy Group?
- A. Earn a profit more easily
 - B. Receive supports from K-fashion
 - C. Fasten the expansion of the business network of K-fashion
 - D. Enter the market of Korean fashion in Hong Kong with a lower cost
16. Which of the following is the socio-cultural factor driving Trendy Group to set up the branches of K-fashion?
- A. The income of Hong Kong people increases.
 - B. The problem of ageing population becomes more serious in Hong Kong.
 - C. The international relationship between China and Korea is good.
 - D. More and more Hong Kong people like Korean fashion trend.
17. Husi Food Company, a meat supplier in Shanghai, provided the global chained fast food shop, McDonald's with meats with quality problems. As a result, McDonald's suspended the sale of some of its products. Which effect of globalisation does the above case reflect?
- A. Enterprises in different countries are interdependent.
 - B. The production cost of businesses can be reduced.
 - C. International cultural influences increase.
 - D. Standardised goods are produced in the global market.

Consider the following case and answer Questions 18-19:

Winnie is the owner of an online accessories store, "Mei Mei Home". She hires two staff members for packing goods, and she is responsible for the rest of the operations of the store. One day, she received many phone and online complaints from the customers, complaining they failed to receive their ordered products within 7-days, which was guaranteed by "Mei Mei Home". She was busy with these complaints and had no time to handle the day-to-day operations of "Mei Mei Home".

18. Winnie checked with the delivery company for the cause of delay. Which of the following management functions is involved in this action?
- A. Planning
 - B. Organising
 - C. Leading
 - D. Controlling

19. Which of the following principles of effective management can Winnie use to facilitate the handling of the above crisis?

- (1) Division of work
- (2) Delegation
- (3) Unity of command
- (4) Management by objectives

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

20. How will an increase in carriage inwards affect the gross profit and net profit?

- | | <u>Gross profit</u> | <u>Net profit</u> |
|----|---------------------|-------------------|
| A. | unchanged | increases |
| B. | unchanged | decreases |
| C. | increases | increases |
| D. | decreases | decreases |

21. Which of the following is the function of a trial balance?

- A. To correct errors
- B. To ensure the double entries of each transaction have not been omitted
- C. For stock taking
- D. For preparing financial statements

22. Which of the following external users of financial statements will focus on the profitability of a firm?

- (1) Potential investors
- (2) Lenders
- (3) Competitors
- (4) The government

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

23. Mr. Lam, the supervisor of an advertising design company, often travels overseas for business purpose. He always sets up a very detailed time table for all designers, and they must complete their daily tasks according to the time table. However, the turnover rate of the designers of the company is very high. The leadership style of Mr. Lam should change from _____ leadership to _____ leadership.
- A. autocratic participative
 B. autocratic laissez faire
 C. participative autocratic
 D. participative laissez faire
24. Jack is the founder and CEO of an online game company. He insisted on introducing online games for PC only, but not for smart phones. Due to the increasing popularity of smart phones, the market share of the games produced by the company has declined significantly. Which characteristic of a successful entrepreneur does Jack lack as shown in the above case?
- A. Visionary
 B. Self-disciplined and ambitious
 C. Willing to make decisions
 D. Committed to work
25. Which of the following is not an impact to an organisation which is lack of unity of direction?
- A. Waste of resources
 B. Low working efficiency
 C. Difficult to monitor employees
 D. Difficult to build team spirit
26. Stephen Company is an electronic appliance manufacturer. Various departments are holding a meeting related to the production of a new electronic shaver. The manager of _____ department suggests to introduce shavers with colour in black, silver and blue according to the questionnaire conducted earlier. The manager of _____ department requests new capital to purchase machines for the production of the new shaver.
- A. marketing management operations management
 B. operations management financial management
 C. information management operations management
 D. operations management risk management
27. A liability is classified as a non-current liability on the statement of financial position if it _____.
- A. was raised within 12 months
 B. was raised more than 12 months ago
 C. was due within 12 months
 D. was due after 12 months

28. As compared with savings deposits, which of the following statements related to bonds issued by the Hong Kong government is correct?
- With a higher liquidity
 - With a shorter deposit period
 - With a higher interest return
 - With a higher holding risk
29. In order to have a better investment protection, individual investors should have certain responsibilities. Those responsibilities include
- Receiving the financial reports and important documents of the company.
 - Understanding the risk of the investment products before transaction.
 - Choosing the brokers and financial planners with relevant qualifications.
 - Requesting the financial planners to provide more choices of investment.
- (1) and (2) only
 - (1) and (4) only
 - (2) and (3) only
 - (3) and (4) only
30. Which of the following double entries is correct?
- | | <u>Transactions</u> | <u>Account to be debited</u> | <u>Account to be credited</u> |
|----|--|------------------------------|-------------------------------|
| A. | The owner introduced office furniture into the business. | Office equipment | Capital |
| B. | Received a cash refund of the rates being over-paid. | Cash | Rates refund |
| C. | Repaid a bank loan by the money just received from a trade debtor. | Bank loan | Trade receivables |
| D. | Paid electricity in cash. | Cash | Electricity |

END OF SECTION A

SECTION B (30 marks)

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

1. Miss Siu is the superior of Ming. She requests him to report to her daily on his work progress. Ming has to discuss with her on every decision he made before execution. One day, Ming sent Miss Siu an SMS message, 'I want to quit! I will leave in one month's time counting from tomorrow. Thank You!'
- (a) Identify the leadership style of Miss Siu. (1 mark)
- (b) List one principle of effective communication. Give an example from the above SMS to explain why there is ineffective communication. (2 marks)

After resigning, Ming wants to open a coffee shop.

- (c) State two contributions of Ming to Hong Kong's economy by opening a coffee shop. (2 marks)
2. Miss Yip owns a fast-food chain business with more than 20 outlets in Hong Kong. To expand her business, she decides to operate by franchising. One year later, the number of outlets of the fast-food chain increases to 50.
- (a) Explain two benefits for Miss Yip to operate by franchising. (4 marks)

Some customers suffered from food poisoning after visiting a franchise shop of Miss Yip. It was found that the shop used expired raw materials for cooking.

- (b) List one responsibility of restaurants to customers. (1 mark)
3. Mr Wong wishes to buy a car but he does not have sufficient money. His friend suggests that he can buy it with personal bank loan and settle the debt by monthly installment.
- (a) Compared with credit card, explain two reasons for Mr Wong to buy the car with personal loan. (4 marks)
- (b) State one factor that affects an individual's credit score. (1 mark)

4. On 20 December 2014, a firm bought an advanced computer system and made a payment of \$60 000 by cheque. The list price was \$72 000 and a trade discount of \$4 000 was given. The firm received it on 31 December 2014. On the same day, the market value of this advanced computer system had fallen to \$65 000.
- (a) Write up the double entries on 20 December 2014. (2 marks)
- (b) State the amount of this advanced computer system to be shown in the statement of financial position as at 31 December 2014. Also, briefly explain with an appropriate accounting concept. (3 marks)

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

5. Ryan started a retail business on 1 January 2014. The following balances were obtained from the books of accounts as at 31 December 2014:

	\$
Trade payables	910 000
Rental deposit	230 000
Cash in hand	50 000
Trade receivables	782 000
Bank overdraft	44 000
Capital, 1 January 2014	3 903 000
Property, plant and equipment	1 500 000
Net profit for the year	680 000
Loan from Chan (repayable in June 2017)	300 000
Inventory	75 000
Land	3 000 000
Drawings	200 000

- (a) Prepare for Ryan the statement of financial position as at 31 December 2014. (6 marks)

Ryan decides to set a steady business growth as the business goal.

- (b) List two criteria for setting good business goals for him. Explain each with an example. (4 marks)

6. Prophet Company had the following financial information for the year ended 31 December 2014:

	\$
Returns inwards	4 000
Returns outwards	5 000
Carriage inwards	6 000
Discount allowed	9 000
Purchases	115 000
Sales	330 000
Inventory, 1 January 2014	28 000
Inventory, 31 December 2014	37 000
Rental income	61 000
Administrative expenses	55 000

- (a) Prepare an income statement for Prophet Company for the year ended 31 December 2014. (6 marks)

Prophet Company decides to convert to a private limited company.

- (b) State two advantages of forming a private limited company over the existing form of business ownership of Prophet Company. (4 marks)

END OF PAPER

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MOCK PAPER 2015

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. Upon the completion of planning marketing activities, briefly describe three of the remaining steps that it should take in the marketing process. (6 marks)
2. A food manufacturer is planning to launch organic space food. Briefly explain three methods of market segmentation that can be used. (6 marks)
3. What is a problem solving team? With reference to Herzberg's Dual-factor Theory, explain whether an employee will be satisfied in joining a problem solving team. (4 marks)
4. Suggest two methods of changing the current accounts receivable policy, in order to improve the liquidity of an enterprise. (4 marks)
5. Briefly describe two selection methods that an enterprise can assess job applicants. (4 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

6. St. Milan is a renowned Western Restaurant in Hong Kong, which also sells traditional British desserts and is famous for its pastries.

Recently, the government revealed that substandard lard (劣質豬油) was imported from Taiwan to Hong Kong. Many well-known food chains are affected. The government announced the list of affected restaurants and St. Milan is listed. The brand image of St. Milan is deeply affected. The sales of its British desserts declined. The management held an emergency meeting for possible solutions.

Raymond, the Operations Manager, reported, 'Our pastry department mainly uses the lard of two Taiwanese suppliers. After receiving the notification of the Centre for Food Safety, pastries suspected to be contaminated were removed from menus instantly. We switched to use other cooking oil in place of lard for production. In the meantime, we contacted a supplier in the Netherlands and imported its lard.'

Charles, the Marketing Manager, said, 'The public lost confidence to our pastries after the incident. The sales of our signature product, butterfly pastry, have dropped by 70%. To regain the confidence of the customers and to comfort their worries, the Marketing department released the new arrangement of our pastries on the official website. And we are contacting our members actively and will hold different activities for better customer relationship.'

Apart from the crisis found in the pastry department, the restaurant also faces the problem of labour shortage. The Human Resources Manager said, 'There is a shortage of dish-washing workers since the implement of the minimum wage. The monthly pay of dish-washing workers is raised to \$14,000, which is very close to the pay of the assistant manager. However, the problem of labour shortage still persists.'

- (a) With reference to the substandard lard incident, suggest two risk management strategies in which St. Milan can adopt. (4 marks)
- (b) Why will the business of St. Milan be affected by the intangibility of service? From the perspective of intangibility, suggest two marketing activities in which St. Milan can launch in order to improve the customer loyalty and solve the current problem of losing customers. (6 marks)
- (c) With respect to the shortage of dish-washing workers, describe one measure to improve the internal and external equity respectively. (4 marks)
- (d) Suggest two indirect compensations that can offer to dish-washing workers in order to recruit more workers. Explain one advantage for each suggestion. (4 marks)

(Total: 18 marks)

7. Han Beauty is a Korean skincare company, which sells high-end skincare products. Its products are formulated with a combination of Chinese and Korean herbal medicine. Its outlets are all over Asia and it has 3 specialty stores in Hong Kong.

Miss Kim, CEO of the group met with the Hong Kong regional team in a regular meeting. Miss Kim said, 'Korean style is popular in Asia. Our group wishes to introduce Hong Kong with the one-year old by-line of our brand, YEBO, amid consumers pursue of Korean products. It aims at local young people and tourists from the Mainland. We plan to set up 10 outlets in Hong Kong in one year's time.'

The Marketing Manager of Hong Kong region responded, 'There is fierce competition in the skincare market. It is not easy to stand out among our competitors. The target market of YEBO is young people, we must enforce the market positioning of our brand and stress on our competitive advantage. However, retail industry faces uncertainties such as "Occupy Central movement" and the decrease in expenditure by Mainland tourists under Individual Visit Scheme. We cannot neglect these external economic factors.'

The Finance Director of Hong Kong region added, 'I estimated the initial investment for setting up 10 outlets in one year's time is \$100 million. The Financial Department intends to evaluate the development plan with internal rate of return. We will estimate the cash flow to the Hong Kong region each year and report to the CEO in the next meeting.'

- (a) List two factors in the SWOT analysis and use them to analyse the development plan of YEBO. (4 marks)
- (b) There are many competitors in the skincare market and they also choose young people as target market. Suggest YEBO with 3 ways to highlight its competitive advantages. (6 marks)
- (c) Explain one advantage and one disadvantage of using internal rate of return (IRR) to evaluate this development plan. (4 marks)
- (d) After half year of operation, the actual revenue of YEBO is far less than budgeted. Explain two possible reasons for the existence of budgeting variance. (4 marks)

(Total: 18 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

8. Firm A is a listed company in Hong Kong, engaging in the sales of casual wear. It is a leading company in the industry.

Below is the information of Firm A:

	Firm A	Industry average
Inventory turnover	4.23 times	3.58 times
Average collection period	43.23 days	40.12 days
Asset turnover	1.10 times	1.05 times

- (a) With reference to the above ratios, briefly describe the management efficiency of Firm A. Explain. (10 marks)
- (b) Firm A is planning to establish its distribution network in the Mainland and needs to raise capital. Compare the differences of adopting internal and external financing. (10 marks)

(Total: 20 marks)

9. Recently, Internet TV is popular, a number of brands enter the market and launch TV box. The sales of TV box recorded a significant increase.

- (a) State the stage of product life cycle TV box is in. Using the TV box as an example, describe the major characteristics of this stage of product life cycle. (10 marks)
- (b) A TV box manufacturer is producing a batch of TV boxes with a tight schedule. The workers in the production line have to work from day to night, leading to physical and mental strain. With reference to the five levels of needs of Malow's Hierarchy of Needs Theory, suggest the manufacturer with methods to motivate its workers. List three of them. (10 marks)

(Total: 20 marks)

END OF PAPER

2015 **BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**
PAPER 1

SECTION A

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

1.

Answer: B

(1) is incorrect. A general partner needs to invest money and operate the business. This does not comply with the conditions of Miss Lee.

(2) is correct. A nominal partner does not need to invest money and operate the business. This complies with the conditions of Miss Lee.

(3) is incorrect. A limited partner needs to invest money. This does not comply with the conditions of Miss Lee.

2.

Answer: A

(1) and (2) are correct. These are the functions of SFC.

(3) is incorrect. This option is the function of Hong Kong Exchanges and Clearing limited (HKEx).

3.

Answer: B

A is incorrect. The use of environmentally-friendly packages can satisfy the consumers' right to have a sustainable and healthy environment, but the government does not require the soft drink producer to do so.

B is correct. The Trade Descriptions Ordinance is a legislation protecting

the consumers' rights in Hong Kong. Therefore, when the soft drink producer complies with the ordinance, it takes up its social responsibilities to both consumers and the government.

C is incorrect. This allows consumer to realise the calories of soft drinks, fulfilling their rights to be informed. It is an act complying social responsibilities to consumers. Yet, the government does not require the soft drink producer to do so, therefore it cannot be regarded as an act to fulfill social responsibilities to the government.

D is incorrect. This can satisfy the consumers' right to safety, taking up the social responsibilities to consumers. Yet, the government does not require the soft drink producer to do so, therefore it cannot be regarded as an act to fulfill social responsibilities to the government.

4.

Answer: C

A is incorrect. Only the employees aged from 18 to 65 are required to join the MPF scheme.

B is incorrect. Employees with monthly income of \$7,100 or below are not required to make mandatory contributions.

C is correct. According to the regulation, casual employees in the catering industry are required to join the MPF scheme, regardless of the length of the employment period.

D is incorrect. Employees employed for less than 60 days are not required to make mandatory contributions.

5.

Answer: B

B is correct. According to the business entity concept, a firm should keep its own set of books. Therefore, the accounting records for different companies should be kept separately although they are owned by the same person.

6.

Answer: B

(1) is correct. SMEs employ fewer staff members, it is difficult to practise division of work.

(2) is incorrect. The form of ownership of SMEs in Hong Kong is mainly sole proprietorship, so their forms of ownership cannot be transferred.

(3) is correct. The financial ability of SMEs is relatively weak, they usually do not have sufficient resources to hire professionals to manage risk.

7.
Answer: B
 (1) and (2) are incorrect. Credit card and bank overdraft do not have fixed number of payments.
 (3) and (4) are correct. Personal loan and interest-free installment loan plan have fixed number of payments.

8.
Answer: D
 A is incorrect. Bankruptcy will lower one's personal repayment ability, leading to a decrease in individual's credit score.
 B is incorrect. A new approved loan implies an increase in outstanding debt, leading to a decrease in individual's credit score.
 C is incorrect. This may imply a higher risk of defaulting on a loan, leading to a decrease in individual's credit score.
 D is correct. A regular review on credit report can avoid inaccuracy of the information, so as to prevent individual's credit score being understated. This will not lead to a decrease in individual's credit score.

9.
Answer: C
 w: Current assets = \$300 000 × 5
 = \$1 500 000
 Current assets less inventory
 = \$300 000 × 0.4
 = \$120 000
 ∴ Amount of inventory
 = \$1 500 000 – 120 000
 = \$1 380 000

10.
Answer: A
 A is correct. $\frac{1\,380\,000}{1\,500\,000} \times 100\% = 92\%$
 of current assets are inventory.
 B and D are incorrect. The quick ratio is less than 1. Therefore, the company has a low liquidity where its current assets may not be able to meet short-term obligations.
 C is incorrect. Not enough information is given.

11.
Answer: A
 Correct double entries

	<u>Dr</u>	<u>Cr</u>
A	Bank	Cash
B	Drawings	Equipment
C	Accounts payables	Capital
D	Machinery	Capital

12.
Answer: B
 (1) is correct.
 FV of the capital and interest invested in product A
 = \$100,000 × (1+5.5%)
 = \$105,500
 The future value generated from investing in product A is greater than \$105,000, which is suitable for David.

(2) is correct.
 FV of the capital and interest invested in product B
 = \$100,000 × (1+5%)¹
 = \$105,000
 The future value generated from investing in product B is equal to \$105,000, which is suitable for David.

(3) is incorrect.
 FV of the capital and interest invested in product C
 = \$100,000 × [1+(4.5%/2)]²
 = \$104,551
 The future value generated from investing in product C is less than \$105,000, which is not suitable for David.

13.
Answer: C
 $ERR = (1 + \frac{i}{m})^m - 1$
 i: nominal rate of return
 m: frequency of compounding
 A is incorrect. The longer the investment horizon, the higher frequency of compounding, resulting in a higher effective rate of return.

B is incorrect. The higher the nominal rate of return, the higher the effective rate of return.
 C is correct. The effective rate of return is unrelated to the amount of capital.
 D is incorrect. The higher the frequency of compounding, the higher the effective rate of return.

14.
Answer: A
 (2) is incorrect. The DVD is just for business use.

(3) is incorrect. According to the business entity concept, owner's personal use item should not be recorded in the books of the business.

15.
Answer: C
 A is incorrect. K-fashion is a renowned Korean fashion brand, good reputation has been established. Comparing to the establishment of a new fashion brand, it is relatively easier for Trendy Group to earn a profit by franchising.
 B is incorrect. A franchisor (K-fashion) usually offers support to its franchisees (Trendy Group), e.g. the provision of training.
 C is correct. This is an advantage to a franchisor (K-fashion).
 D is incorrect. Trendy Group can enter the market simply by paying a franchise fee to the franchisor.

16.
Answer: D
 A is incorrect. This is an economic factor driving Trendy Group to set up the branches of K-fashion.
 B is incorrect. This is a socio-cultural factor preventing Trendy Group from setting up the branches of K-fashion.
 C is incorrect. This is a political factor driving Trendy Group to set up the branches of K-fashion.
 D is correct. Trend in the society is a socio-cultural factor, driving Trendy group to set up the branches of K-fashion.

17.
Answer: A
 A is correct. McDonald's purchased meat from Husi Food Company in Shanghai. When the meat supplied by Husi Food Company was discovered with quality problems, the business of McDonald's would also be affected. This shows enterprises in different countries are interdependent under globalisation.
 B is incorrect. The above case does not demonstrate a reduction in production cost of McDonald's under globalisation.
 C is incorrect. The above case shows the enterprises in different countries are interdependent, it is unrelated to

cultural influences.

D is incorrect. Although McDonald's produces standardised products, the above case does not reflect this effect.

18.

Answer: D

D is correct, A, B and C are incorrect. The action of checking the cause of delivery time longer than standard (7 days) by Winnie can be regarded as an act of deviation analysis. It is a step of controlling. This is unrelated to other management functions.

19.

Answer: A

(1) is correct. Winnie could share the tasks related to complaint handling to her subordinates through division of work.

(2) is correct. Winnie could delegate authority to her subordinates to handle complaints.

(3) is incorrect. Her subordinates have been receiving orders solely from Winnie, the use of the principle of unity of command could not help to solving the above crisis more effectively.

(4) is incorrect. If Winnie practises management by objectives, she has to set goals and develop plans for achieving the goals together with her two subordinates, which is time-consuming.

20.

Answer: D

D is correct. Carriage inwards will increase the cost of goods sold. Therefore, it will reduce the gross profit and net profit.

21.

Answer: D

D is correct. A, B and C are not the functions of a trial balance.

22.

Answer: D

D is correct. All of the aforementioned are the external users of financial statements who focus on the profitability of a firm.

23.

Answer: B

B is correct. A, C and D are incorrect.

The designers merely listen to the instructions of Mr. Lam and execute, this leadership style is an autocratic leadership. The work of designers involves artistic creation, so Mr. Lam should merely give simple instructions and give full autonomy to designers on how to achieve the task objective, i.e. adopting a laissez faire leadership. Yet, the practice of a participative leadership is not suitable in this case because Mr. Lam always needs to travel and the time that to discuss with each designer is limited.

24.

Answer: A

A is correct. Jack could not forecast the trend of smart phone games, and hence failed to lead the company to catch up with the trend, i.e. to launch smart phone games. It shows that he is not visionary.

B and D are incorrect. The above case does not show Jack is short of these characteristics.

C is incorrect. Jack decides to launch games for PC only, but not for smart phones. It shows he is willing to make decisions.

25.

Answer: C

A and B are incorrect. If different departments have different objectives in an organisation, it may lead to conflicts between policies and actions, and the effectiveness of the action will be offset. This may result in the waste of resources and even generate other problems, leading to low working efficiency.

C is correct. The effectiveness of monitoring employees is unrelated to the unity of direction.

D is incorrect. If an organisation lacks unity of direction, each department would pay efforts in achieving different goals, it is difficult to build team spirit.

26.

Answer: A

A is correct, B, C and D are incorrect. A marketing manager is responsible for conducting market researches, to understand the consumers' preference

(e.g. the colour of products). An operations manager is responsible for evaluating the resources needed for the production of new products, but the approval of capital for purchasing new machines should be granted by the department of financial management.

27.

Answer: D

C is incorrect. It is the definition of a current liability.

28.

Answer: C

A and B are incorrect. There is no limitation on the deposit period for savings deposit, while the investment horizon for HKSAR Government Bond is in years, therefore it is of a lower liquidity.

C is correct. In Hong Kong, the interest rate for a 1-year time deposit is around 0.15%, while the HKSAR Government Bond usually offers a coupon rate up to an integer.

D is incorrect. HKSAR Government has a strong credit rating of "investment grade". Its default risk is lower than private banks.

29.

Answer: C

(1) and (4) are incorrect. They are the rights of individual investors, but not the responsibilities.

(2) is correct. After the investors understood the risk of investment products, they can set suitable risk management measures, and thus, their investment will have better protection.

(3) is correct. The brokers and financial planners with relevant qualifications should have professional knowledge and their works are regulated. Hence, the investment would be more protected.

30.

Answer: C

Correct double entries

	Dr	Cr
A	Office furniture	Capital
B	Cash	Rates
D	Electricity	Cash

END OF SECTION A

SECTION B

1.(a) Autocratic leadership (1 mark)

(b) Principle:

- Clarity: To achieve effective communication, Ming should inform his superior formally in written communication of his resignation. The message carried in the SMS is too simple. Miss Siu (the receiver) may not understand and be clear of the message.
- Completeness: The SMS of Ming does not contain important information such as the exact date of resignation and the reason for leaving.

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

(c) Contributions:

- Provision of job opportunities
- Contribution to the economic growth

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

2.(a) Benefits:

- Speed up the pace of expansion: With more franchisees joined, the number of outlets of the fast-food chain will increase and it can raise its market share.
- Wider source of capital: The franchisor can use the financial resources of the franchisees for business development. The franchisor can also earn an income by receiving franchise fees and other regular income from the franchisees.

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

(b) Responsibility:

- To ensure food safety
- To provide food with reasonable price
- To handle complaints and provide refund and other after-sales services

(1 mark for each relevant responsibility, max.1 mark)

3.(a) Reasons:

- Lower interest rate: Personal loans are not revolving credit. The interest rate is fixed and consumers can make installment repayment. For credit cards, if the consumer fails to repay in full at the payment due date, high interest cost will be involved.
- Fixed repayment schedule: The interest rate and payment schedule of personal loans are fixed once the negotiation is done. Compared with credit card, of which has no fixed number and amount of repayment, personal loans are easier for the consumer to follow.

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

(b) Factor:

- Applicant's current financial situation
- Applicant's occupation
- Applicant's past payment record

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

	Dr.	Cr.
	\$	\$
Office equipment	\$72 000	4 000
Bank	68 000	60 000
Other payables		8 000

(b) According to historical cost concept (1 mark), assets should be recorded at their cost of acquisition and the subsequent changes in market price should be ignored (1 mark). Therefore, the amount of this advanced computer system to be shown in the statement of financial position as at 31 December 2014 should be \$68 000. (1 mark)

5.(a)

Ryan Statement of Financial Position as at 31 December 2014

ASSETS	\$	
Non-current assets		
Land	3 000 000	½
Property, plant and equipment	1 500 000	½
	<u>4 500 000</u>	
Current assets		
Inventory	75 000	½
Trade receivables	782 000	½
Rental deposit	230 000	½
Cash in hand	50 000	½
	<u>1 137 000</u>	
Total Assets	<u>5 637 000</u>	
CAPITAL AND LIBAILITIES		
Capital		
Balance as at 1 January 2014	3 903 000	½
Add: Net profit for the year	680 000	½
	4 583 000	
Less: Drawings	200 000	½
	<u>4 383 000</u>	
Non-current liabilities		
Loan from Chan (repayable in June 2017)	300 000	½
Current liabilities		
Trade payables	910 000	½
Bank overdraft	44 000	½
	<u>954 000</u>	
Total liabilities	<u>1 254 000</u>	
Total capital and liabilities	<u>5 637 000</u>	

(6 marks)

(b) Criteria and examples:

- Specific: e.g. to have a certain growth on market share.
- Time-based: e.g. to have a certain growth on market share by the end of next year.
- Measurable: e.g. to have 10% growth on market share by the end of next year.

(2 marks for each criterion and example, max. 4 marks)

6.(a)

Prophet Company			
Income Statement for the year ended			
31 December 2014			
	\$	\$	\$
Sales			330 000 ½
Less: Returns inwards			4 000 ½
Net sales			326 000
Less: Cost of goods sold			
Opening inventory		28 000	½
Purchases	115 000		½
Less: Returns outwards	5 000	110 000	½
Carriage inwards		6 000	½
		144 000	
Less: Closing inventory		37 000	107 000 ½
Gross profit			219 000 ½
Add: Other revenue			
Rental income			61 000 ½
			280 000
Less: Expenses			
Discounts allowed		9 000	½
Administrative expenses		55 000	64 000 ½
Net profit			216 000 ½

(6 marks)

(b) Advantages:

- Limited liability
- More source of capital
- Easy to transfer the ownership

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

END OF PAPER

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 2B

SECTION A

1.

Steps:

- Organising marketing activities: Formulating the organisational structure in terms of functional (such as advertising or promotional department), geographical, product or market-management organisation, in order to classify and integrate different marketing activities.
- Implementing marketing activities: Translating the marketing plans into marketing actions.
- Controlling marketing activities: Determine the performance targets and closely monitor the actual marketing performance. If variations are found between the actual and expected performance, one should evaluate the needs to take corrective actions.

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

2.

Methods:

- Geographic segmentation: Westerners have passions towards space exploration, and they are more willing to accept innovative products. Therefore, the food manufacturer can initially choose western nations as their target market.
- Demographic segmentation: High technology is involved in manufacturing space organic food, resulting in higher production cost. Therefore, the price of space food will be higher than normal food. The food manufacturer can choose higher-income segment as their target market.
- Psychographic segmentation: Organic food emphasises the importance of nutrition and food safety, which is suitable for customers who pursue healthy lifestyle. The food manufacturer can choose this type of customer as their target market.

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

3.

Problem solving team:

- It is a kind of work team. A problem solving team consists of employees from the same department. It is formed with the purpose of making suggestions and advices to the management, on how work processes and procedures can be improved. (2 marks)

Yes.

Reason:

- By joining the problem solving team, an employee can contribute constructive ideas in improving work processes. It allows employees to understand themselves and realise their potential, as well as gaining recognition from the company. According to Herzberg's Dual-factor Theory, the presence of motivators can motivate employees and leading to job satisfaction.

OR

No.

Reason:

- The suggestions given by a problem solving team is advisory in nature. If the management eventually did not take the suggestions, the employees may feel that they are not being recognised. According to Herzberg's Dual-factor Theory, the disappearance of motivators will result in employees not feeling satisfied with their job.

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

4.

Policies:

- Increase the credit standards: It would be more difficult for customers to receive credit after an increase in credit standards. Since only the customers with higher level of creditworthiness will receive a credit, the enterprise's accounts receivables will decrease, thereby increasing its liquidity.
- Increase cash discount: Customers who are eager to obtain cash discount will pay earlier, resulting in a decrease in the average collection period of an enterprise, thereby increasing its liquidity.
- Shorten the credit period: the average collection period of an enterprise will decrease after shortening the credit period, thereby increasing its liquidity.

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

5.

Methods:

- Test: Written test or test of physical abilities can assess whether the job applicants are suitable for a job.
- Interview: By asking question, interviewers can test the knowledge bases of the job applicants towards

different aspects as well as their response to different questions, assessing whether they are suitable for a job.

- Work sampling technique: An enterprise can observe the work sampling technique of a job applicant, such as asking them to perform a related job task, in order to assess their performance. (2 marks for each relevant method, max. 4 marks)

SECTION B

6. (a)

Strategies:

- Risk reduction: St. Milan can formulate food safety inspection system and test the quality of lard regularly. This can detect substandard lard at early stage and avoid problematic food to enter the market.
- Risk reduction: St. Milan can purchase lard from different suppliers in different nations. This can ensure stable and safety supply of raw materials even when one of the suppliers is found to be with safety problem.
- Risk transfer: St. Milan can purchase insurance in order to transfer part of the loss arisen from the contaminated products to the insurance company.
- Risk assumption: St. Milan can set aside a sum of money, to cover the potential losses.

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

(b)

- Intangibility of service refers to the difficulty of consumer to judge the service quality before they consume. In the case of St. Milan, consumers fail to judge whether the products are safe before the consumption, it is not easy for St. Milan to rebuild the confidence of consumers (2 marks).

Marketing activities:

- Enhance the promotion strategy: St. Milan can announce to the public in their official website how they handle the contaminated products and demonstrate the purchase order of lard from a new supplier. These serve as concrete evidence to the public that contaminated products were destroyed and the new products are safe. It matches with customers' expectations to buy safety food, thereby restoring customers' confidence towards the restaurant.

- Organise membership activity: Activities such as visiting tour, pastry workshop and tasting allow members to understand the raw materials used by the restaurant. This can relieve customers' concern and strengthen their confidence, increasing the customer loyalty.
- Launch new packaging: New package with 'Lard from the Netherlands' label allows customer to identify the food safety. This can comfort their worries and restore their confidence towards St. Milan.

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

(c)

Measure to improve internal equity:

- Job evaluation: Determine the relative worth of all posts, i.e. work on a formal and systematic comparison on each position relative to another within the restaurant. The post which requires higher qualifications and skills, such as manager, bartender will be assigned with a higher return.

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

Measure to improve external equity:

- Compensation and benefit surveys: Collect the salary information within the industry and take them as reference to recruit dish-washing workers.

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

(d)

Indirect compensations and its advantages:

- Holidays and paid leave: Dish-washing is a kind of physical work. The provision of paid leave allows employees to restore their physical well-being, and can strike a balance between work and rest.
- Insurance benefits: Employees are prone to suffer from strain with prolonged engagement in dish-working. The provision of medical insurance can safeguard employee's health, enhancing their productivity.
- Family-friendly benefits: The provision of meals and pastry coupon to employees can enhance their loyalty to the restaurant.

(2 marks for each compensation and its advantage, max. 4 marks)

7. (a)

Factors:

- Internal strengths: The group masters the technology of integrating Korean and Chinese herbal medicine into their skincare product. Also, Han Beauty is

a well-known brand in Hong Kong, it facilitates the group to introduce its by-line into the Hong Kong market.

- Internal weaknesses: The group has to set up 10 outlets in Hong Kong in one year. The group may face the problem of insufficient of capital, affecting the progress of the expansion plan.
- External opportunities: Korean style is popular, young people are keen on buying Korean products. It would be easier to introduce its by-line to Hong Kong.
- External threats: Affected by Occupy Central movement and the decrease in expenditures by Mainland tourists, the retail industry in Hong Kong faces uncertainties. Therefore, there are potential risks in introducing its by-line to Hong Kong.

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

(b)

Ways:

- Product differentiation: It can make use of its technology advantage of integrating Korean and Chinese herbal medicine, and produce unique skincare product for young people, highlighting its competitive advantage.
- Service differentiation: It can provide customised service to customer, such as skin test and skincare consulting service, highlighting its competitive advantage.
- People differentiation: It can strengthen the skincare knowledge of its employees by training, so that employees can offer more helpful and caring services to customers, highlighting its competitive advantage.
- Channel differentiation: It can allow customers to order through their official App, and deliver the products directly to customers, differentiating its advantage of channel of distribution.
- Image differentiation: It can take the advantage of the well-established brand image of Han Beauty, highlighting its competitive advantage.

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

(c)

Advantage:

- It considers time value of money and all cash flows.
- The project return is expressed in percentage, it is easy for the management to understand.

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

Disadvantage:

- Apart from the initial investment, all the cash flows are assumed to be positive under IRR. It also assumes there is no residual value for the project and all cash

inflows are equal. If the assumptions are violated in reality, it is difficult to calculate the IRR value.

- As IRR is expressed in percentage, it cannot reflect the actual increase in firm value.

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

(d)

Possible reasons:

- Material variance: As the raw materials used in producing skincare products recorded a shortage in supply, the international prices of raw materials increase, resulting in a difference in actual and budgeted raw materials costs.
- Labour variance: Facing the problem of labour shortage in the retail industry, YEBO has to hire front-line sales with higher wage rate, resulting in an increase in labour costs.
- Sales variance: YEBO offers different product combination, if there is a lower proportion of high profit margin products sold as compared with budget, it will result in a difference between actual and budgeted profits.

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

SECTION C

8. (a)

Analysis:

- Inventory turnover: It is used to measure how efficiently a firm uses its inventory. A higher value means the firm is able to sell its inventory more quickly. The inventory turnover of Firm A is higher than the industry average, it means that it can sell its inventory quicker and generate more sales. Its management efficiency is higher than the competitors.
 - Average collection period: It is used to measure the average time needed to collect accounts receivables. A lower figure means a higher efficiency of a firm in collecting accounts receivables. Firm A has a longer average collection period than average, it means that it needs a longer period to collect accounts receivables. Its management efficiency is lower than the competitors.
 - Asset turnover: It is used to measure how efficiently assets are being used to generate sales. A higher ratio means a firm can efficiently use its assets to generate sales revenue. Firm A has a higher ratio than its competitors, representing that it can convert assets into cash more quickly, its management efficiency is higher than the competitors.
- (3 marks for each analysis, max. 10 marks)



(b)

Differences:

	Internal financing	External financing
Flexibility	<ul style="list-style-type: none">An enterprise can freely use its retained profits, without the need to get approval. Its flexibility is higher than external financing.	<ul style="list-style-type: none">External financing involves complicated procedures, e.g. an enterprise has to get approval from shareholders and go through a series of legal procedures when issuing debts or equity securities. Its flexibility is relatively low.
Cost	<ul style="list-style-type: none">An enterprise can make use of its own cash flow, such as retained profits or convert its assets into cash, to meet the needs of capital. Transaction cost or interest expenses are not involved, hence its cost is lower than external financing.	<ul style="list-style-type: none">Costs are involved in issuing securities or bonds, including the administration cost and service fee charged by investment banks and accounting firms. In addition, an enterprise may need to pay dividend, hence its cost is higher than internal financing.
Freedom in decision making	<ul style="list-style-type: none">As no additional shares are issued, the number of shareholders is unchanged, the freedom of decision making is not affected.An enterprise may lack the incentive to evaluate carefully before investment, leading to a higher risk.	<ul style="list-style-type: none">If equity financing is adopted, important decisions of the enterprise are required to get the approval from new shareholders. The freedom of decision making is reduced.It enables the enterprise to evaluate the project carefully, leading to a relatively lower risk in investment.
Amount of capital raised	<ul style="list-style-type: none">Retained profits are limited, leading to a limited amount of capital raised.	<ul style="list-style-type: none">The amount of capital raised is not limited.

(3 marks for each difference, max. 10 marks)

9. (a)

- Growth stage (1 mark)

Major characteristics:

- Sales and profits increase: As Internet TV is gaining its popularity, consumers build their awareness on TV box and more consumers are willing to purchase. It leads to a growth in sales and profits of producers are rising.
- A slight decrease in average cost: Producers will increase the production volume to meet the market demand. The average cost per customer will be lowered.
- Customers are early adopters: TV box is still new to the majority. Customers who bought TV boxes are those who are willing to try new products, and they are early adopters.
- Growing number of competitors: As the sales and profits of TV box increase, more competitors are attracted to enter the market.

(3 marks for each characteristic, max. 9 marks)

(b)

Needs and methods:

- Physiological needs: Offer a short break every two hours, it enables workers to have a drink and go to washroom, fulfilling their basic needs / To raise the workers' salaries, so that they can purchase more necessities.
- Safety and security needs: A prolonged and repeated action will cause muscle strain, the manufacturer can offer

medical insurance benefits to the workers in order to fulfill their safety needs.

- Social needs: The manufacturer can employ more temporary staff during peak season, it enables permanent staff to reduce overtime working and work on holiday, so that they can spend more time with their family and friends, fulfilling their social needs.
- Ego needs: The manufacturer can award the outstanding workers with a certificate of recognition, showing its recognition and appreciation towards their contributions. This can increase the sense of belonging of the workers towards the company.
- Self-actualisation needs: The manufacturer can arrange the outstanding workers to participate in the job allocation of the production line, and provide them with more training. This enables workers to perform their potential strengths, fulfilling their self-actualisation needs.

(3 marks for each need and method, max. 10 marks)