

BAFSSCHOOL OF THE HONG KONG ECONOMIC TIMES
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION
MOCK PAPER 2016

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.

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. May and Ken jointly set up a business in the form of a limited partnership. Ken is the limited partner of the partnership. Which of the followings are correct?
 - (1) If the partnership is liquidated, only May has to pay the outstanding debts of the partnership, using her personal funds.
 - (2) Ken has no involvement in the management of the partnership.
 - (3) Ken does not have the ownership of the enterprise.
 - A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

2. Which of the following is not an internal factor affecting share prices of a property developer?
 - A. The developer acquired with a building material company.
 - B. The government announced to increase the property supply.
 - C. The company recorded a positive profit growth rate.
 - D. The management announced to issue new shares.

3. Which of the following statements about laws and ethics is correct?
 - A. Laws are changing over time while ethics are not.
 - B. Ethics are universally applicable to members of society.
 - C. Laws have clear definition while ethics have no clear standards.
 - D. There is a clear punishment if there is a violation of ethical standards.

4. Which of the following MPF scheme members cannot withdraw his/her accrued benefits before the retirement age of 65?
 - A. Miss Chan, who retires early at the age of 60.
 - B. Eason, who has an MPF account balance of \$6 000, and no contributions were made to his MPF scheme for 12 months.
 - C. Mr. Lai, who had a car accident few months ago, is totally incapable.
 - D. Jenny, who emigrates to the USA, permanently departs from Hong Kong.

5. Which of the following is correct?

	<u>Accounting concepts</u>	<u>Situation</u>
A.	Going concern	A firm decides to close down after the end of reporting period, so it records all items at market price.
B.	Business entity	A firm bought a computer which was entered in the office equipment account at market price.
C.	Consistency	A firm recorded all the rental payments this year as an expense.
D.	Historical cost	A firm adopts a uniform mark up on sale of goods.

6. Which of the followings are the disadvantages of Management by objectives (MBO)?

- (1) It is time-consuming for managers to have regular meetings with subordinates.
- (2) It focuses on short-term objectives.
- (3) It increases the work burdens of managers.

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

7. Which of the following statements about the Main Board and the Growth Enterprise Market (GEM) is correct?

- A. The listing requirements for GEM are stricter than that of the Main Board.
- B. Constitute stocks of Hang Seng Index are listed on the GEM.
- C. It is more risky to invest in Main Board listed companies than in the GEM listed companies.
- D. The expected return of investing in GEM listed companies is usually higher than investing in Main Board listed companies.

8. Which of the following statements of effective rate of return is/are correct?

- (1) If the interest is compounded once a year, effective rate of return is higher than nominal rate of return.
- (2) Effective rate of return can better reflect the actual return of investment than nominal rate of return.
- (3) If interest is compounded more frequently, the nominal rate of return is higher.

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

9. A business earns a gross profit margin of 40%. Calculate its net purchases based on the following data:

	\$
Opening inventory	30 000
Closing inventory	90 000
Sales	200 000
Returns outwards	7 000

- A. \$60 000
B. \$173 000
C. \$180 000
D. \$187 000
10. In the statement of financial position, _____ must be shown at the highest level under the current assets section.
- A. land
B. building
C. inventory
D. cash in hand
11. Which of the following must be in debit balances on a trial balance?
- (1) Short-term investment
(2) Trade payables
(3) Discounts allowed
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
12. Which of the following statements about Hang Seng Index (HSI) are correct?
- (1) There are now 50 constituent companies in the index.
(2) The combination of stocks in the HSI is reviewed annually.
(3) Technology is one of the four sub-indexes of HSI.
(4) HSI is the indicator of the performance of the Hong Kong stock market.
- A. (1) and (2) only
B. (1) and (3) only
C. (1) and (4) only
D. (2) and (3) only

13. Michael plans to purchase a piece of equipment which costs \$100 000 for his coffee shop. The equipment is expected to be used for four years and can be sold for \$15 000 in the last year. The equipment can generate a cash flow of \$22 000 per year.

If the cost of capital is 4%, what is the net present value (NPV) (to the nearest dollar)?

- A. -\$7 320
B. -\$20 142
C. \$3 000
D. \$92 680
14. A firm bought office furniture on credit for business use. Which of the following are the effects of this transaction on the statement of financial position?

	<u>Total current assets</u>	<u>Total current liabilities</u>
--	-----------------------------	----------------------------------

- | | | |
|----|-----------|----------|
| A. | increase | increase |
| B. | decrease | decrease |
| C. | unchanged | increase |
| D. | unchanged | decrease |
15. Which of the followings is not an effect of globalisation to Hong Kong?
- A. Encourage technology transfers
B. Greater economic fluctuation
C. Increase the demand for local low-skilled labour
D. Access to world markets more easily
16. Which of the following statements are correct?
- (1) Cash discounts should be recorded in the books.
(2) Trade discounts are a reduction of selling price.
(3) Carriage outwards should be charged in the cost of goods sold.
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
17. Which of the followings is an expense?

- A. Inventory
B. Carriage outwards
C. Drawings
D. Building

18. A representative of the government said, “the objective of the government is to reduce the municipal solid waste disposal rate by 90% within two years.” Which of the following characteristics of a SMART goal is missing from the above goal?
- A. Measurable
 - B. Time Bound
 - C. Specific
 - D. Attainable
19. Which of the following statements about public corporations are correct?
- (1) They are financed by public funds.
 - (2) They are wholly owned by the government.
 - (3) The Airport Authority Hong Kong (AA) is a public corporation.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
20. Which of the followings is the main purpose of accounting ratios?
- A. To assess the acceptability of customers for a new product
 - B. To assess the short-term survival of a firm
 - C. To apply for a bank loan
 - D. To conduct staff appraisal of a clerk
21. Cecilia has an insight into the trend of unique accessories. She decides to set up a store to sell unique handmade smartphone cases. Which of the following marketing strategies has she adopted?
- A. Pricing
 - B. Promotion
 - C. Product
 - D. Place
22. Which of the followings is not the advantage of franchise to the franchisee?
- A. Start a business with a well-known brand name
 - B. Earn franchise fees every month
 - C. Purchase raw materials with lower costs
 - D. Acquire trainings and supports from franchisor

23. Which of the following statements regarding Small and Medium Enterprises (SMEs) in Hong Kong are incorrect?
- (1) A toy manufacturer with 90 employees is an SME.
 - (2) SMEs enjoy a lower profits tax rate than multinational corporations.
 - (3) SMEs can only be operated by sole proprietorship.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
24. A toy company sets up some departments, including department of remote-controlled cars, department of dolls. Which of the following departmentalisation method does the company adopt?
- A. By product
 - B. By function
 - C. By location
 - D. By process
25. Which of the followings is not a standard to measure the performance of marketing department?
- A. Average cost of products
 - B. Market shares
 - C. Growth rate of sales
 - D. Complaint rate of customers
26. If the amount of total current assets is larger than the total current liabilities, _____ .
- A. the working capital is positive in value
 - B. the company should make further investment
 - C. the quick assets of the company can meet its short-term obligations
 - D. a long-term loan should be raised to meet short-term obligations
27. Which of the followings is/are the advantage(s) of buying a company's bonds over buying its ordinary shares?
- (1) A higher return is guaranteed.
 - (2) When the company is liquidated, bondholders have the priority to get back the capital.
 - (3) Have voting rights in the annual general meeting.
- A. (1) only
 - B. (2) only
 - C. (1) and (2) only
 - D. (2) and (3) only

28. Mr. Tse plans to buy a car which costs \$150 000. He should choose _____ because _____.
- A. revolving credit.....interest rate is lower
 - B. revolving credit.....it is easy and fast to obtain
 - C. non-revolving credit.....a fixed repayment schedule makes it easy for Mr. Tse to arrange
 - D. non-revolving credit.....the number of repayments is not fixed and it is more flexible

29. Which of the following double entries are correct?

	<u>Transactions</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
(1)	The firm bought a motor van on credit as a reward to a staff.	Wages and salaries	Accounts payable
(2)	Paid a cash bonus to the manager.	Wages and salaries	Cash
(3)	Bought magazines in cash as a staff welfare.	Wages and salaries	Cash

- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
30. Which of the following statements are correct?
- (1) “Closer Economic Partnership Arrangement” (CEPA) allows dentists to enter the Mainland market more easily.
 - (2) Hong Kong provides financing and capital management services to the Mainland individuals and organisations.
 - (3) Foreign direct investment of the Mainland mainly comes from Hong Kong.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

END OF SECTION A

SECTION B (30 marks)

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

1. Mr. Chan is the owner of a toy company. Recently, the sales revenues have increased dramatically. He is now considering whether to set up subsidiaries in the Mainland, but he decides to keep the headquarters in Hong Kong.
 - (a) List one reason why Mr. Chan keeps his headquarters in Hong Kong. (1 mark)
 - (b) Explain two external factors that he has to consider when setting up subsidiaries in the Mainland. (4 marks)

2. Tony is a university graduate. He plans to purchase a property five years later and hopes to choose a suitable financial product. However, he has no investment experience and feels distressed at choosing a suitable financial product.
 - (a) Point out the life stage that Tony is at, and explain one major financial need at this stage. (2 marks)
 - (b) Macy, a friend of Tony, suggests that he can invest in bonds and stocks. In term of investor's role and returns, list one difference between bonds and stocks respectively. (4 marks)
 - (c) Briefly list two rights and responsibilities of individual investors to Tony respectively. (4 marks)

3.
 - (a) State one external user of financial statements. (1 mark)
 - (b) Explain two limitations on the use of financial statements. (4 marks)

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

4. The following information is obtained from Joy Company:

	Joy Company
Turnover	\$5 000 000
Working capital ratio	2:1
Quick ratio	0.8:1
Cost of goods sold	\$1 000 000
Net profit	\$300 000

- (a) Calculate the gross profit ratio and the net profit ratio for Joy Company. (2 marks)
- (b) Evaluate on the liquidity of Joy Company. (3 marks)

In order to have a prominent growth in profit, the chief executive officer asked the production department to use a cheaper material. A research report revealed that this material may be harmful to people's health.

- (c) If Joy Company uses this cheaper material, explain two possible adverse impacts on it. (4 marks)
- (d) Apart from customers, identify another stakeholder of Joy Company. (1 mark)

5. Mr Lee is an owner of a fast food shop. The following figures were obtained as at 31 December 2014:

	\$
Inventory, 1 January 2014	73 000
Inventory, 31 December 2014	96 000
Cash in hand	27 000
Motor vans	54 000
Purchases	180 000
Trade receivables	151 000
Sales	292 000
Carriage inwards	11 000
General expenses	9 000
Trade payables	66 000
Capital, 1 January 2014	?

- (a) Prepare for Mr Lee the trial balance as at 31 December 2014. Also, calculate the amount of capital on that date. (5 marks)

Mr Lee decides to buy a machine. The purchase price of the machine is \$40 000. As there is no sufficient cash, he obtains a three-year bank loan. The annual interest rate is 5%, compounded annually.

- (b) Calculate the total amount that Mr Lee has to repay after three years. (2 marks)
- (c) Instead of obtaining a bank loan, suggest Mr Lee another method to buy the machine. Also, state one advantage and one disadvantage of the method suggested. (3 marks)

END OF PAPER

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BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 2B

BUSINESS MANAGEMENT MODULE

Time allowed: 2 hours 15 minutes
This paper must be answered in English

INSTRUCTIONS

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

SECTION A (24 marks)

Answer **ALL** questions in this section.

1. Explain three downward communication channels within an enterprise. Illustrate each with an example. (6 marks)

2. Explain two promotion means that E-marketers can use. Illustrate each with an example. (4 marks)

3. Explain two limitations that an enterprise may encounter in evaluating the business performance by ratio analysis. (4 marks)

4. Explain two sampling methods that a marketing researcher can use. (4 marks)

5. Describe the three stages of staffing. (6 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

6. CoffeePremium has been a coffee maker for 30 years, providing coffee to a number of chain coffee shops. In view of coffee culture which has been deep rooted in developed countries, the company decided to enter the retail business three years ago by opening retail shops to sell coffee machines and coffee capsules, with senior executives as the target market. It also offers business solutions to hotels, restaurants and big corporations.

However, the performance of the retail market and business programmes are far from satisfactory, sales and budget are not in line. At present, coffee machines are overstocking. The Group Chief Executive Officer called for emergency meetings for countermeasures.

The Head of the Operations Department said, "it takes time to manufacture coffee machines. In order to satisfy the market demand, we had ordered a lot of coffee machines at the early opening. Since the sales situation was not ideal, the stock appeared hoarding." Chief Executive Officer commanded the Head of the Operations Department to review the inventory policies.

Finance Manager then reported, "in the past two years, due to the increasing rental costs and wage costs resulting from a labour shortage in the retail industry, there was a great financial pressure. We have to boost our product sales by devoting more effort in sales and marketing."

Marketing Department responded, "in the past, we might have overlooked the spending habit differences between individual consumers and business customers. In the coming quarter, we will launch new marketing strategies to increase sales in both markets."

- (a) Explain two reasons for resulting in budget variance in CoffeePremium. (4 marks)
- (b) Explain the promotion strategies that CoffeePremium can use in its consumer market and business market respectively, in order to reach its target market more effectively. Illustrate each with an example. (4 marks)
- (c) With reference to the coffee capsules business, explain three differences between a consumer and business market. (6 marks)
- (d) (i) List one problem that will be resulted if CoffeePremium has too many inventories. (2 marks)
- (ii) Suppose the company sells 10 units of coffee machine each day, and it takes 30 days to deliver inventory from a supplier. If the safety stock of CoffeePremium is 500 units, calculate its re-order level. List your calculations. (2 marks)

(Total: 18 marks)

7. Happy Theme Park, which has been set up for 20 years, is a local theme park. It is a private limited company. With rides and booths facilities, the theme park serves the locals and tourists. Happy Theme Park plans to expand the park and construct a new water park to attract new and old visitors. Due to insufficient fund, the Board of Directors was summoning a meeting to discuss the financing plan with all executive directors.

"This expansion plan will involve flattening mountains and sites, initially estimated at a cost of \$2 billion. As the implementation of the plan requires large capital, I believe financing is necessary," said the Chairman of the Board.

"With a stable cash flow from the annual admission fee as well as a low debt ratio, the park has a strong and stable cash flow. We should strike a balance between enterprises' risks and shareholders' interests, and make the best choice," said Directors A. The Chairman of the Board finally ordered the Finance Department to submit a financing proposal and then discuss it in detail.

On the other hand, in response to the new expansion plan, the Managing Manager and Human Resources Manager were conducting a meeting to discuss future human resources planning. "At present, the park has 300 full-time and part-time frontline staff. Yet, they are of a higher turnover rate. Some ex-staff reflected that there is limited room for the frontline staff to exhibit their talent," reported the Human Resources Manager.

"After the completion of the water park, it is preliminarily estimated that more than 200 frontline staff will be employed. We have to prepare the human resources planning well, and strengthen the training to cope with the Park's development goals," said the Managing Director.

- (a) Take the construction of a water park by Happy Theme Park as example, illustrate why it is more appropriate to use external financing than internal financing. Explain with two reasons. (4 marks)
- (b) Suppose the debt ratio of the theme park is very low. Suggest whether the park should use equity financing or debit financing? Describe two other advantages of using this financing method. (6 marks)
- (c) Suggest the human resources manager with two recruitment methods name one advantage of each to the park. (4 marks)
- (d) The human resources manager is planning to train its potential frontline staff as "Happy ambassadors". They are to make surprise to visitors and create a happy atmosphere in the park. With reference to the assumptions of the following theories, explain whether the below policies can motivate its staff. (4 marks)
- (i) McGregor's Theory Y
- (ii) Herzberg's Dual-factor Theory

(Total: 18 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

8. A snack chain store purchases snacks directly from overseas. Recently, as the merchandisers are inexperienced, they purchased snacks with poor quality. Complaints were received from customers and all the poor quality snacks are removed from shelves immediately.
- (a) Suggest the snack store with some risk control policies. (10 marks)
- (b) Explain some on-the-job and off-the-job training that the snack store can use in promoting the working ability of the merchandisers. (10 marks)
(Total: 20 marks)
9. Aerial photography (航空拍攝) is very popular. Apart from photography amateur, commercial use of aerial photography such as news reporting and wedding photography are very common. There are several giant enterprises intend to join the business of producing aerial devices (航拍機). The market price of professional aerial devices began to fall.
- (a) One international technology giant is considering whether to join the business of producing aerial devices. Explain how it can evaluate the attractiveness of this target market. (10 marks)
- (b) In which stage of the product life cycle does aerial device belong to? With reference to the characteristics of its product life cycle, explain the marketing mix tools that can be used by the producers. (10 marks)
(Total: 20marks)

END OF PAPER

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PAPER 1

SECTION A

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

1.
Answer: A
 (1) is correct. At least one general partner needs to bear unlimited liability in a limited partnership. May is the general partner of the partnership. If the partnership is liquidated, only May has to pay the outstanding debts of the partnership, using her personal funds.
 (2) is correct. Limited partners enjoy limited liability and do not participate in the management of the business.
 (3) is incorrect. Limited partners do not participate in the management of the business but they still have the ownership of the business.

2.
Answer: B
 A and D are incorrect. Acquisition and issuing new shares are corporate decisions and they are internal factors affecting share prices.
 B is correct. Government policy is an external factor affecting share prices.
 C is incorrect. A positive profit growth rate can reflect that the company has good performance. It is an internal factor affecting share prices.

3.
Answer: C
 A is incorrect. Laws and ethics are both changing over time. The legal environment will change as society evolves. Both laws and ethics are affected by the changing environment.
 B is incorrect. Ethics are a more socially binding concept. Ethical standards may vary from one person to another.
 C is correct. To make a law binding on people's behavior, the laws must be written and spelt out clearly. However, there are no clear standards of ethics, and they may vary from one person to another.

D is incorrect. There is no clear punishment for a violation of ethical standards. The violation of ethical standards usually does not result in punishment.

4.
Answer: B
 A is incorrect. Scheme members, who have early retirement at the age of 60, can withdraw their accrued benefits before the retirement age.
 B is correct. Scheme members, who have a small balance account of \$5 000 or less, and no contributions were made to an MPF scheme for 12 months, can withdraw their accrued benefits before the retirement age. Eason has a balance of \$6 000 and is not eligible to withdraw his accrued benefits before the retirement age.
 C is incorrect. Scheme member, who are totally incapable, can withdraw their accrued benefits before the retirement age.
 D is incorrect. Scheme members, who permanently depart from Hong Kong, can withdraw their accrued benefits before the retirement age.

5.
Answer: A
 B is incorrect. The situation violates the historical cost concept.
 C is incorrect. The situation violates the accrual concept.
 D is incorrect. The situation is not related to any accounting concept.

6.
Answer: D
 (1) is correct. It is time-consuming for managers to have meetings with subordinates to set the objectives and review working progress.
 (2) is correct. MBO focuses on short-term

objectives and neglects long-term objectives.
 (3) is correct. During the process of MBO, managers will meet with subordinates regularly to review their performance, which will increase their work burdens.

7.
Answer: D
 A is incorrect. The listing requirement for Main Board is stricter than that of the GEM.
 B is incorrect. Constitute stock of Hang Seng Index is listed on the Main Board. They are stocks with high daily turnover.
 C is incorrect. The requirements of listing on the Main Board are higher than those of GEM. Besides, there is no profit requirement for enterprises listed on GEM. It is less risky to invest in Main Board listed companies than in the GEM listed companies.
 D is correct. Investing in GEM listed companies will have higher risk, which may also mean a higher return. GEM listed companies usually have higher growth in stock prices. Investing in GEM listed companies may have a higher expected return than investing in the Main Board listed companies.

8.
Answer: A
 (1) is incorrect. If the interest is compounded once a year, effective rate of return is the same as nominal rate of return.

$$\text{Effective Rate of Return} = \left(1 + \frac{r}{k}\right)^k - 1$$
 where r: interest rate, k: the number of periods compounded in a year

(2) is correct. The effective rate of return allows investors to compare the rates of return of different investment projects. It includes the interest reinvested during the year. It can better reflect the actual return of investment than nominal rate of return.

(3) is incorrect. Nominal rate of return is the stated interest rate. It will not be affected by the frequency of compounding.

9.
Answer: C

$$\text{Gross profit} = \frac{\text{Sales} - \text{Cost of goods sold}}{\text{Sales}} \times 100\%$$

$$\text{Cost of goods sold} = \$200\,000 \times (1 - 40\%) = \$120\,000$$

$$\text{Cost of goods sold} = \text{Opening inventory} + \text{Purchases} - \text{Closing inventory}$$

$$\therefore \text{Net purchases} = \$120\,000 - 30\,000 + 90\,000 = \$180\,000$$

10.
Answer: C
 A and B are incorrect. They are non-current assets.
 C is correct and D is incorrect. Current assets are listed in the ascending order of liquidity. Inventory will be listed in the highest level under current asset section. Cash is shown at the lowest level under the current assets section.

11.
Answer: B
 (1) is correct. It is a current asset. It must be in debit balance.
 (2) is incorrect. It is a current liability. It must be in credit balance.
 (3) is correct. It is an expense. It must be in debit balance.

12.
Answer: C
 (1) is correct. There are now 50 constituent companies in the index.
 (2) is incorrect. The combination of stocks in the HSI is reviewed quarterly.
 (3) is incorrect. Technology is not one of the four sub-indexes of HSI. HSI constituent stocks are grouped into Finance, Utilities, Properties, and Commerce and Industry Sub-indexes..
 (4) is correct. HSI is the most widely quoted indicator of the performance of Hong Kong stock market.

13.
Answer: A

$$\text{NPV} = \frac{\$22\,000}{1.04} + \frac{\$22\,000}{1.04^2} + \frac{\$22\,000}{1.04^3} + \frac{\$22\,000}{1.04^4} + \frac{\$15\,000}{1.04^4} - \$100\,000 = -\$7\,320$$

14.
Answer: C
 Office furniture is a non-current asset. The transaction will increase non current asset. It will not affect total current asset directly.

15.
Answer: C
 A is incorrect. Globalisation allows a more efficient flow of capital and information between different countries, which favours technology transfers. It helps technology to further develop into new products, processes or services.
 B is incorrect. Under globalisation, Hong Kong will be easily affected by the economic impacts in other places, leading to greater economic fluctuation.
 C is correct. Many low-skilled jobs migrate to lower-cost areas under globalisation, which decreases the demand for local low-skilled labour.

D is incorrect. Enterprises can use the Internet to sell their products in different countries. They can access to worldwide markets easily.

16.
Answer: A
 (1) is correct. Cash discounts should be recorded in the books as either discounts allowed (expense) or discounts received (revenue).
 (2) is correct. Trade discounts are a reduction of selling price during purchases or sales.
 (3) is incorrect. Carriage outwards should be charged as an expense. It is not a part of the cost of goods sold. Instead, carriage inwards should be charged in the cost of goods sold.

17.
Answer: B
 A is incorrect. It is a current asset.
 B is correct. It is the cost of transporting goods to customers. It is an expense.
 C is incorrect. It is a reduction of capital.
 D is incorrect. It is a non-current asset.

18.
Answer: D
 A is incorrect. Reducing the municipal solid waste disposal rate by 90% is a measurable or quantifiable indicator. The above goal is measurable.
 B is incorrect. The target date of the goal will be within two years. The above goal is time bounded.
 C is incorrect. The above goal is to reduce the municipal solid waste disposal rate by 90% within two years, which is a precise and clear objective.
 D is correct. Goals should be challenging, and yet realistic and attainable. However, reducing the municipal solid waste disposal rate by 90% within two years is impossible to reach. The above goal is unattainable.

19.
Answer: C
 (1) is incorrect and (2) is correct. Public corporations are wholly owned by the

government, but they are self-financing.
 (3) is correct. The Airport Authority Hong Kong (AA) is a public corporation. It is responsible for operating and managing the Hong Kong International Airport.

20.
Answer: B
 A is incorrect. A market research should be conducted to assess the acceptability of customers for a new product.
 B is correct. Liquidity ratios can be used to evaluate the short-term survival of a firm.
 C is incorrect. When applying for a bank loan, an application form from a bank should be filled in. The bank may assess the creditability of the firm using its accounting ratios.
 D is incorrect. It is not related to accounting ratios.

21.
Answer: C
 A, B and D are incorrect. The question does not mention about pricing, promotion and place strategies.
 C is correct. Cecilia understands that customers like unique accessories. Therefore, she sells handmade smartphone cases. It belongs to a product strategy.

22.
Answer: B
 A is incorrect. A franchisee can have national, regional or even international brand name recognition by starting a franchise. The business will have a greater chance to succeed.
 B is correct. Earning franchise fees is an advantage to the franchisor. The franchisee has to pay a fixed percentage of gross sales as monthly royalty payments to the franchisor.
 C is incorrect. The franchisees can buy raw materials from the franchisor. As the franchisor can buy in bulk, it can resell raw materials to its franchisees at lower costs.
 D is incorrect. Training can be provided to the franchisees and its staff. Besides, when the franchisee has business problems, they can seek for supports from the franchisor.

23.
Answer: C
 (1) is incorrect. According to the definition of the Trade and Industry Department, the staff size of an SME is less than 100 people for a manufacturing business. A toy manufacturer with 90 employees is an SME.
 (2) is correct. Profits tax rate is determined by the forms of business ownership and has no relationship with the business scale. In 2014/2015, the profits tax rate for a sole proprietorship and partnership is 15%, while that for limited company is 16.5%. Since SMEs can be operated by sole proprietorship, partnership and as limited company, it is not necessary for SMEs to enjoy a low profits tax rate than multinational corporations.
 (3) is correct. SMEs can be operated by sole proprietorship, partnership and as limited company.

24.

Answer: A

The toy company divides its departments according to the nature of its products. Therefore, the departmentalisation is by product.

25.

Answer: A

A is correct. Minimising the production cost is the role of a operations department. Therefore, average cost of products is used to measure the performance of operations department but not the marketing department.

B, C and D are incorrect. The roles of a marketing department include executing market strategies and plans as well as providing goods and services that satisfy customer needs. Therefore, market share, growth rate of sales and complaint rate of customers can be used to measure the performance of the marketing department.

26.

Answer: A

A is correct. Working capital (Net current asset) = Current assets – Current liabilities. Working capital > 0, when current assets > current liabilities

B, C and D are incorrect. No sufficient information is provided.

27.

Answer: B

(1) is incorrect. Bondholders can enjoy fixed interests while ordinary dividends are not fixed, which depends on the company's profits and decisions. Therefore, bondholders may not have higher returns.

(2) is correct. When the company is liquidated, stock investors may lose all of their investment. However, the bondholders have the priority to get back the capital.

(3) is incorrect. Bondholders are the creditors of the company. They do not have voting rights in the annual general meeting.

28.

Answer: C

C is correct, A and B are incorrect. When buying relatively expensive items, non-revolving credit is more appropriate. It allows an individual to estimate in advance how much will be repaid each month and how long it will take to pay back the loan. The consumer can have a better arrangement.

D is incorrect. There are fixed number of repayments and fixed amount of repayment for non-revolving credit. It encourages an individual to plan before consumption.

29.

Answer: A

Correct double entries:

	Dr	Cr
(3)	General expenses	Cash

30.

Answer: D

(1) is correct. There is a mutual recognition of

professional qualification such as accountants and dentists under “Closer Economic Partnership Arrangement” (CEPA). It increases the mobility of professional talents of Hong Kong and Mainland.

(2) is correct. Hong Kong has well-developed financial facilities and highly regarded legal system, which make Hong Kong the main financing centre of the Mainland.

(3) is correct. Hong Kong is the region with the largest foreign direct investment in China. Many Hong Kong entrepreneurs set up factories and businesses in the Mainland.

SECTION B

- 1.(a) Reason:
- A highly regarded legal system
 - A strong system to protect private property rights and intellectual property rights
 - High quality human resources
 - No limits on information and capital flow
 - Laissez-faire policy
- (1 mark for each relevant reason, max. 1 mark)

- (b) External factors:
- Economic, e.g. wages level, rental costs
 - Social, e.g. preference to toys, cultural difference
 - Political, e.g. political stability
 - Legal, e.g. labour law, licensing regulations
- (2 marks for each relevant factor, max. 4 marks)

2.(a) Young single (1 mark)
Major financial need: create and accumulate wealth (1 mark)

(b)

	Bonds	Stocks
Investor's role	Creditor of the firm (1 mark)	Owner of the firm (1 mark)
Returns	- Coupon payments - Bond price appreciation (1 mark)	- Dividends - Stock price appreciation (1 mark)

- (c) Rights:
- Right to be informed about the performance of their financial investment
 - Receive responsible advice
 - Obtain accurate information about financial services
 - Right to complain
 - Ask for the rationale of an investment recommendation
- (1 mark for each relevant right, max. 2 marks)

- Responsibilities:
- Study information about the financial services carefully
 - Understand the terms of a contract
 - Monitor activities on own account
 - Consider the risk and return involved in the financial services
- (1 mark for each relevant responsibility, max. 2 marks)

- 3.(a) External user:
- customers
 - lenders
 - competitors
 - banks
 - the government
 - potential investors
- (1 mark for each relevant user, max. 1 mark)

- (b) Limitations:
- There is no qualitative information.
 - Data relates to the past events only.
 - It ignores the time value of money.
 - Using different accounting methods and policies will make the comparison difficult.
- (2 marks for each relevant limitation, max. 4 marks)

4.(a) Gross profit ratio:

$$\frac{5\,000\,000 - 1\,000\,000}{5\,000\,000} \times 100\%$$

= 80% (1 mark)

Net profit ratio:

$$\frac{300\,000}{5\,000\,000} \times 100\%$$

= 6% (1 mark)

(b) Joy Company has low liquidity (1/2 mark) as its quick ratio is less than 1 (1/2 mark). It indicates that its liquid assets may not be able to meet short-term obligations (1 mark). Moreover, the working capital ratio is far higher than the quick ratio, indicating that a high proportion of funds tied up in inventory (1 mark).

- (c) Adverse impacts:
- The company may be sued by the customers for compensations.
 - The company's reputation will be adversely affected.
- (2 marks for each relevant adverse impact, max. 4 marks)

- (d) Stakeholder:
- investors
 - the government
 - lenders
 - competitors
- (1 mark for each relevant stakeholder, max. 1 marks)

5. (a) **Mr Lee**

Trial Balance as at 31 December 2014

	Dr	Cr
	\$	\$
Inventory, 1 January 2014	73 000	½
Cash in hand	27 000	½
Motor vans	54 000	½
Purchases	180 000	½
Trade receivables	151 000	½
Sales		292 000 ½
Carriage inwards	11 000	½
General expenses	9 000	½
Trade payables		66 000 ½
Capital, 1 January 2014		147 000 ½
	<u>505 000</u>	<u>505 000</u>

(5)

- (b) Total amount = \$40 000 x (1+5%)³
= \$46 305 (2 marks)
- (c) Mr Lee can buy the machine on credit from the supplier. (1 mark)
Advantage: interest free / lower interest rate than the bank loan (1 mark)
Disadvantage: usually shorter credit period (1 mark)
Or any reasonable answer

END OF PAPER 1

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2B SECTION A

1.
Channels and examples:

- Face-to-face communication: Senior management can call for regular or staff meeting, enabling its employees to understand the corporate policy.
- Workspace: Display notice on notice board, informing the employees the new policy.
- Printed media: Publish newsletter or corporate magazine, announcing the latest corporate information.
- Electronic media: Informing the employees the emergency issue of the company through social media, such as Whatsapp.

(2 marks for each relevant channel and example, max. 6 marks)

2.
Promotion means and examples:

- Website: Create website to promote products directly.
- Online advertising: Use banner ads, skyscrapers, interstitials or search engine related ads to promote products.
- Web communities: Promote products through social media such as facebook or instagram.
- Mobile advertising: Place advertising on mobile applications.
- E-newsletter: Send emails to potential customers.

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

3.
Limitations:

- Non-quantitative information cannot be reflected: The change in global economic outlook and the business environment cannot be reflected in the accounting ratios. The business performance may therefore be overestimated or underestimated.
- Difficult to reflect the future financial situation: Historical data are used in ratio analysis, future financial positions are difficult to forecast through ratios.
- Difficult to compare with other enterprises: Different companies may use different accounting policies, therefore it is difficult to do comparison across companies.
- Fail to identify the precise change: Accounting ratios only provide a full picture of the financial positions of an enterprise. It cannot identify a precise problem faced or a business improvement of the enterprise.

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

4.
Methods:

- Simple random sampling: Select sample from the target population randomly, each element

has an equal opportunity to be selected.

- Stratified sampling: Divide a target population into groups in terms of age, income level and educational attainment and etc. Sample is then selected randomly from each group.
- Convenience sampling: Select sample by the most conveniently available.

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

5.
Stages:

- Recruitment: Determine using internal or external candidates, and choose the appropriate job posting method.
- Selection: Assess and evaluate the job applicants, in order to look for a suitable person.
- Employment: Decide whom to employ and inform the chosen candidate.

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

SECTION B

6.(a)
Reasons:

- Sales variance: Although the price of the coffee machines remains consistent, the financial department has wrongly forecast the sales volume in the budget, resulting in actual sales revenue far below the budget.
- Materials variance: Due to the increasing rental cost in the past two years, the rent of the retail shops was higher than the budget, resulting in budgeting variance.
- Labour variance: The shortage of labour in the retailing industry pushes up the salaries, increasing the labour cost and it was out of the budget.

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

(b)
Promotion strategies for consumer market:

- Advertising: Place advertisements on financial newspapers or magazines and target senior executive readers, in order to deliver the product message to its potential consumers.
- Sales promotion: Offer free coffee made by coffee machines to executives in the morning in commercial area such as Central. It enables its target market to try the product, increasing their awareness on the product.

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

Promotion strategies for business market:

- Public relations: Sponsor large-scale sports activities which have many big corporate participants, so as to promote its brand image.
- Personal selling: Employ salespeople to present the product information to the management of hotels, restaurants and large corporations and arrange trial campaign, to encourage them to buy the offices solutions.

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

(c)
Differences:

	Consumer market	Business market
Number of buyers	Consumers are dispersed and there are more buyers.	Number of buyer is fewer as enterprise serves as a unit.
Purchase amount	Normally it is for individual or family usage, so with a small purchase amount.	Large enterprise has to set up coffee machines in different branches, floors or departments, the purchase amount is relatively large.
Location of buyers	Individual consumers are spread over different districts.	Enterprises are located in commercial areas.
Nature of demand	It is to satisfy the wants of coffee of individual consumers.	The demand is derived from the needs of customers for coffee/ the needs of enterprise to offer fringe benefits to their employees.
Price sensitivity of buyers	Relatively higher, as the demand is for personal use.	Relatively lower, as the demand is usually a derived demand.
Number of participants in the purchase decision	Consumers themselves are the decision makers.	The purchase decision is made by a number of senior management.
Complexity of the purchase decision	The decision making procedure is simple, it can be by impulse buying.	The procedure is more complex. The decision making process may involve technical experts and head of various departments.

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

(d)(i)
Problem:

- The coffee machines may become outdated:

Due to advance technology, new models will be launched every year. The old models will be obsolete if too many inventories are stored.

- High inventory cost incurred: Inventory may incur storage cost and insurance premium, too many inventories will result in cost pressure.
- Natural depletion: Natural depletion will be resulted if machines are stored for a long period.

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

(ii)

Re-order level= (Daily usage x number of days for delivery) + safety stock (1 mark)
 = (10 x 30) + 500 units =800 units (1 mark)

7.(a)

Reasons:

- Huge amount of capital raised: As the estimated cost of building a water park is around \$2 billion, the amount of capital raised is huge. As the retain earnings of the company is limited, it may not have enough capital for the construction project. On the contrary, there is no limitation on the amount of capital raised through external financing, such as issuing shares or bonds.
- The decisions making process is more diligent: As internal financing does not require to get approval from different parties, the senior management may be less diligent in evaluating the expansion project, increasing the chance of investment loss. On the contrary, external financing requires the approval from shareholders, the senior management must evaluate the project carefully and make prudent decision.

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

(b)

Debt financing (2 marks)

- Reason: As the debt ratio of the theme park is very low, i.e. with a low chance of liquidation, so it has a high repayment ability. Therefore, it is appropriate to use debt financing which is of a lower cost (2 marks).

Other advantages:

- The control over the company will not be affected: As the creditors do not have voting rights, the control over the company by the existing shareholders will not be affected.
- Shareholders can earn a higher return: As the park does not need to share profits with creditors, shareholder can enjoy a higher return.

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

(c)

Methods and advantages:

- Job fairs: Attract a large number of applicants at once and to have interview onsite, it can reduce advertising cost and cost of arranging interviews with individual candidate.
- Employee referral: The new recruits may have more understanding on the job nature, it is easier for the park to recruit suitable candidates/ It is a lower cost of recruitment.

- Post recruitment advertisements: It has a wider coverage which can draw mass attention.

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

(d)(i)

Yes. Theory Y assumes that if employees are committed to the firm's objective, they will be self-motivated/ they will seek responsibilities. "Happy ambassador" scheme can raise the satisfaction of staff/ is a challenging task, hence it can motivate staff effectively (2 marks).

(ii)

Yes. Dual-factor theory assumes the existence of motivators such as job achievements, recognition and responsibilities can lead to job satisfaction. "Happy ambassador" scheme allows staff to get recognition from employer and customers/ is a challenging task. It is a motivator and hence it can motivate staff effectively (2 marks).

SECTION C

8.(a)

Methods:

- Risk assumption: It can estimate the frequency of incidents, and set aside a sum of money to cover the potential loss, including monetary loss arising from written off or compensation.
- Risk reduction: Set up rigorous procurement procedures for merchandisers to follow, thereby reducing the chance to buy low-quality food. / When the poor-quality food is found, the snack shop must remove the snacks from shelves and respond. It can allay the public concerns, reducing the negative impact of to the goodwill of the snack shop.
- Risk transfer: The snack shop can transfer the losses arising from poor-quality food incident to the insurance company by buying insurance.

(3 marks for each relevant method, max. 10 marks)

(b)

On-the-job training:

- Coaching: The new recruits can be led by the experienced merchandisers in the overseas procurement. During the actual work process, the coach can immediately correct their poor performance, while the new recruits can learn by observing how their superiors work.
- Job rotation: The snack shop can allow new recruits to try different positions such as shopkeepers, backend logistic clerks and etc. They can learn the preference of customers and also the points to note of transporting different food, enhancing their purchasing capability.

Off-the-job training:

- Classroom teaching: To teach the new recruits on nutrition knowledge, labelling and legislation on food safety, enhancing

their purchasing capability.

- Programmed learning: Merchandisers are often sent to work overseas, snack shop can set up a computerised e-learning software, teaching them the basic concepts of purchasing. It allows self-learning progressively, enhancing their purchasing capability.

(3 marks for each relevant method, max. 10 marks)

9.(a)

Methods:

- The size and growth of a segment: The market of aerial devices is growing rapidly. Apart from amateurs, business consumers are also their potential customers. Because of its scale, the market is attractive.
- The strength of the existing market player: There are a number of aerial device producers in the market, some of them are big enterprises. The technology giant can consider if it can be a market challenger.
- The bargaining power of the buyers: The buyers in business market (news or wedding shooting) is less price sensitive. Even if the price of aerial devices is high, their demand will not be affected. Hence, the market is attractive.
- The objectives and resources of the company: The technology giant can review whether its resources are sufficient for implementing the new project, and its consistency with the corporate objective.
- The number of substitute available: The lower the chance to find a substitute for the aerial devices, the higher its market attractiveness.

(3 marks for each relevant method, max. 10 marks)

(b)

Growth stage (1 mark)

Marketing mix tools :

- Product Strategy: As the aerial device is widely accepted by the consumers, more consumers will buy the device. The producer will experience rapid profits growth, it should upgrade its product quality and introduce new models, satisfying the existing customers and attract new customers from other market segments.
- Pricing strategy: As the company experiences both sales and profits growth, it can lower its product price and capture more market share.
- Place strategy: As the number of consumer increases, the producer can introduce more distribution channels, e.g. department stores, toy shops, to distribute their products.
- Promotion strategy: The producer can continue to rely on advertising to attract customers. However, it can lower its budget on promotion when the product is widely accepted by the market, so as to make more effective use of resources.

(3 marks for each relevant tool, max. 9 marks)

END OF PAPER