

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.

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## SECTION A (MULTIPLE-CHOICE QUESTIONS)

### INSTRUCTIONS

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

**SECTION A** (60 marks)

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

1. Which of the following are the duties of the Human Resources Department of a bank?
- (1) Determining the personnel strategies with the top management
  - (2) Providing training to management trainees
  - (3) Arranging interviews with the job applicants
- 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 statements about drawings is/are correct?
- (1) It increases net profit.
  - (2) It reduces capital.
  - (3) It is an expense.
- A. (1) only  
B. (2) only  
C. (1) and (3) only  
D. (2) and (3) only
3. Which of the following transactions will decrease the balance of trade payables?
- (1) Purchased goods on credit
  - (2) Purchased a motor van on credit
  - (3) Returned goods to the credit supplier
- A. (1) only  
B. (3) only  
C. (1) and (3) only  
D. (1), (2) and (3)
4. Which of the followings is not an advantage of small and medium enterprises (SMEs)?
- A. Easier to adapt to the changes in business environment
  - B. Lower operating cost
  - C. Able to develop in a narrow market
  - D. Lower labour turnover

5. Which of the following statements about Mandatory Provident Fund (MPF) Scheme is incorrect?
- A. Both employees with a monthly income of \$7 100 or below and their employers are not required to contribute to an MPF scheme.
  - B. Employees in the construction industry for a fixed period of less than 60 days are required to contribute to an MPF scheme.
  - C. Employees who are totally incapable are allowed to withdraw their accrued benefits before the retirement age of 65.
  - D. Both the employer and employee can choose to make extra voluntary contributions.
6. Mr. Chan is an owner of a fast food restaurant. Hong Kong was threatened by an outbreak of bird flu recently. He decided to stop selling all chicken products. It is an example of \_\_\_\_\_ .
- A. risk reduction
  - B. risk avoidance
  - C. risk transfer
  - D. risk assumption

**Based on the following information, answer Question 7 and 8:**

	Company A	Company B
Number of owner	20	20
Legal status	Yes	Yes
Disclosure of financial statement to the public	No	Yes

7. Company A is a \_\_\_\_\_ while Company B is a \_\_\_\_\_ .
- A. partnership.....public limited company
  - B. partnership.....private limited company
  - C. private limited company.....public limited company
  - D. public limited company.....private limited company
8. Compared with Company A, which of the followings is/are the disadvantage(s) of Company B?
- (1) Higher profits tax rate
  - (2) Higher risk of being taken over
  - (3) Less flexible in transferring ownership
- A. (2) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)

9. Yuki joins a three-year investment plan. Bank A gives an annual interest rate of 7%, compounded on a quarterly basis. The nominal rate of return is \_\_\_\_\_ while the effective rate of return is \_\_\_\_\_.
- A. 7%.....7%  
 B. 7%.....7.2%  
 C. 7.2%.....7%  
 D. 7%.....23.1%
10. Which of the following is not an example of economic factors that might affect the business of a pharmacy in Hong Kong?
- A. The rent and wages of Hong Kong increase dramatically.  
 B. The government limits the Multiple-entry Endorsement for Shenzhen residents to one visit per week.  
 C. The income and consumption power of Hong Kong citizens increase.  
 D. The unemployment rate of retail industry increases.
11. Which of the following statements about World Trade Organisation is/are correct?
- (1) It formulates the trade policies for its members to implement voluntarily.  
 (2) It settles trade disputes between members.  
 (3) It provides loans to the developing countries to support sustainable economic growth.
- A. (2) only  
 B. (1) and (2) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)
12. Mr. Wong is a sole proprietor of a mobile phone store. Besides selling mobile phone, he provides after-sales services to his customers. Which of the followings are the advantages of providing after-sales services?
- (1) Establish a positive word of mouth  
 (2) Help to build up customer loyalty and to increase the sales revenues  
 (3) Ensure the products meet the customers' expectations
- A. (1) and (2) only  
 B. (1) and (3) only  
 C. (2) and (3) only  
 D. (1), (2) and (3)
13. What is the main purpose of preparing a trial balance?
- A. Reflect the financial position of a business on a specific day  
 B. Check the arithmetical accuracy of bookkeeping entries  
 C. Locate accounting errors  
 D. Find out the bank overdraft balance



14. Star Bank established a scholarship scheme awarding selected undergraduate students who participate actively in voluntary services. It is an example of taking social responsibility to the \_\_\_\_\_.
- A. community
  - B. government
  - C. consumers
  - D. shareholders
15. The sales performance of May Department Store is not satisfactory. The CEO instructs to implement a plan boosting the sales revenues. One of the managers suggests to lower the production costs while another manager suggests to increase market shares. \_\_\_\_\_ is violated because \_\_\_\_\_.
- A. Unity of command.....an employee directly reported to two managers
  - B. Unity of command.....suggestions proposed by two managers violate the command of director
  - C. Unity of direction.....performance of the company is not satisfactory which violates the objective of maximising profit
  - D. Unity of direction.....the suggestions of the managers are with different objectives
16. Which of the following accounting ratios can be calculated when only the statement of financial position of a sole proprietorship is provided?
- (1) Return on capital employed
  - (2) Current ratio
  - (3) Net profit ratio
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
17. On 1 April 2015, Eden started her business by depositing her own cash \$70 000 into the firm's bank account and introducing equipment costing \$10 000 into the firm. In addition, the firm borrowed \$30 000 from a bank to acquire a machine. The total revenue and total expenses for the year ended 31 March 2016 amounted to \$40 000 and \$25 000 respectively. On 31 March 2016, the balance of Eden's capital account was \$86 000.

What is the amount of Eden's drawings for the year ended 31 March 2016?

- A. \$9 000
- B. \$21 000
- C. \$39 000
- D. \$71 000

18. Sonic Airways an airline company. Which of the followings is the reason most likely to push up its share price?
- Oil price rises
  - Flight attendants of the company go on strike
  - Company distributes more dividends
  - Company has poor sales record
19. Which of the following statements about the business environment in Hong Kong are correct?
- Hong Kong engages in primary, secondary and tertiary production.
  - There is a limitation of capital outflow in Hong Kong.
  - Hong Kong acts as a stepping stone of European countries to enter the Mainland market.
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)
20. Which of the following statements is correct?
- Resources intended to use in business are known as expenses.
  - Business resources intended to resell for making profit are known as non-current assets.
  - Debts owing more than 12 months are known as non-current liabilities.
  - Debts with a maturity of less than 12 months are known as current liabilities.
21. Which of the followings about tall type organisational structure and flat type organisational structure are correct?

		<u>Tall type</u>	<u>Flat type</u>
(1)	Communication	Difficult	Fast
(2)	Span of control	Wide	Narrow
(3)	Flexibility	Low	High

- (1) and (2) only
- (1) and (3) only
- (2) and (3) only
- (1), (2) and (3)

**Based on the following information, answer Question 22 and 23:**

On 31 December 2015, the amount of inventory of a company is \$80 000. Its quick ratio and current ratio are 1.1:1 and 1.5:1 respectively.

22. What was the amount of working capital of the company on the same date?
- A. \$32 000
  - B. \$100 000
  - C. \$200 000
  - D. \$300 000
23. Which of the following comments on the liquidity of the company is correct?
- A. High proportion of funds is tied up in inventory.
  - B. Bank overdraft arises.
  - C. The owner has withdrawn a large amount of inventory.
  - D. The current assets can meet the short-term obligations.
24. Which of the following statements about Hang Seng Index (HSI) are correct?
- (1) In a bull market, the stock prices are increasing.
  - (2) The HSI is a popular benchmark index of the performance of the Asian stock market.
  - (3) There are 50 constituent stocks in the HSI.
- A. (1) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
25. A firm sold stationery to a supplier on credit. The stationery was no longer for office use. Which of the following double entries for the business is correct?
- |    | <u>Debit</u>      | <u>Credit</u>     |
|----|-------------------|-------------------|
| A. | Stationery        | Other payables    |
| B. | Other payables    | Stationery        |
| C. | Stationery        | Other receivables |
| D. | Other receivables | Stationery        |
26. Which of the followings about the Main Board and Growth Enterprise Market (GEM) is correct?
- A. The minimum market capitalisation for the GEM is higher than that of the Main Board.
  - B. The listing requirements for the Main Board are higher than that of the GEM.
  - C. The returns of the Main Board are higher than that of the GEM.
  - D. There are more companies listed on the GEM than the Main Board.

27. Suppliers will use the accounting information provided in financial statements to assess \_\_\_\_\_ of the company.
- A. the punctuality of staff
  - B. the investment value
  - C. the repayment ability
  - D. the customer loyalty
28. Which of the followings about consumer credit are correct?
- (1) Affinity credit cards are jointly issued by two financial institutions.
  - (2) Credit rating represents the ability of an individual to repay a debt.
  - (3) A bank overdraft is a kind of non-revolving consumer credit.
  - (4) TransUnion in Hong Kong is the only consumer credit reference agency in Hong Kong.
- A. (1) and (2) only
  - B. (2) and (3) only
  - C. (2) and (4) only
  - D. (3) and (4) only
29. Which of the following statements are correct?
- (1) Entrepreneurs have to bear risk when they operate a business.
  - (2) A small and medium enterprise (SME) can be a subsidiary of a multinational corporation.
  - (3) The number of SMEs in Hong Kong is more than that of large enterprises.
- 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 is an internal factor affecting the share price of a construction company?
- A. The market interest rate increases
  - B. The government announces to increase the supply of residential housing
  - C. The unemployment rate slightly increases
  - D. The company repurchases its stock

**END OF SECTION A**



**SECTION B** (30 marks)

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

1. Miss Chan is interested in the jewelry industry and she would like to purchase the shares of a jewelry company. However, she would like to transfer her shares freely in the stock market.
  - (a) Which forms of business ownership should Miss Chan buy the share from? Besides freely transferring the shares, point out one characteristic of that form of business ownership. (3 marks)
  - (b) State two external factors affecting the share price of a listed jewelry company. (2 marks)
2. Explain three functions of human resources management. (6 marks)
3. State two functions of the Hang Seng Index. (4 marks)
4. (a) Explain the going concern concept in accounting. (2 marks)

A firm bought a machine with a list price of \$46 000 on 11 November 2015. The owner decided to close the business on 31 January 2016 and took out the machine on 20 December 2015. The market value of the machine on the same date was \$32 000. The bookkeeper recorded the machine on the statement of financial position of the firm at \$32 000 on 31 December 2015.

  - (b) State the accounting principle or concept that has been violated and give a brief explanation. (3 marks)

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

5. Grace is the sole owner of a trading firm without any employees. The following balances as at 31 December 2015 were obtained from the firm:

	\$
Capital, 1 January 2015	160 000
Bank overdraft	?
Loan from Dora	50 000
Rental deposit	10 000
Inventory	70 000
Equipment	200 000
Net profit for the year	66 000
Accounts payable	82 000
Accounts receivable	104 000

- (a) Prepare a statement of financial position for Grace's business as at 31 December 2015. (5 marks)

A frequent customer wants to join Grace's business and invites her to convert the business to a partnership.

- (b) Give two reasons why Grace should accept the invitation from the frequent customer instead of running a firm on her own. (4 marks)
- (c) Apart from customers, identify one type of stakeholders in Grace's business. (1 mark)

6. Anna is a sole owner of a trading firm. The financial information of the firm for the year ended 31 December 2015 is as follows:

	\$
Inventory, 1 January 2015	47 000
Inventory, 31 December 2015	68 000
Carriage inwards	2 300
Rental expenses	96 000
Returns inwards	5 000
Sundry expenses	31 000
Sales	152 000
Purchases	55 000

- (a) Prepare an income statement for Anna's business for the year ended 31 December 2015. (5 marks)

In order to increase company profits, the sales manager sets a target for her team: "we will enhance the image of our team as soon as possible."

- (b) State the form of departmentalisation of Anna's business. (1 mark)
- (c) Briefly explain two characteristics of a SMART goal that are missing from the above goal. (4 marks)

**END OF PAPER**

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# **BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**

## **PAPER 2B**

### **BUSINESS MANAGEMENT MODULE**

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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 two usefulness of budgetary control. (4 marks)
  
2. Explain three psychological factors affecting individual consumers to make their purchase decisions. (6 marks)
  
3. Explain two advantages to the company when it uses performance-based pay to evaluate the performance of a salesperson. (4 marks)
  
4. Suggest three ways of differentiation for a Salon to identify its competitive advantage. Illustrate each with an example. (6 marks)
  
5. The industry outlook is uncertain, explain two ways to solve the problem of the excess supply of labour. (4 marks)

## SECTION B (36 marks)

Answer **ALL** questions in this section.

6. TREND is an international fashion magazine which introduces the US and European designer clothes. In addition to European and American markets, magazines in Chinese version are also sold in Asian regions including Hong Kong.

In recent years, TREND magazine sales have been in a freefall due to the proliferation of Internet information. As requested by the Group's Chairman, Chief Executive Officer of the magazine (Hong Kong) and the Hong Kong team held meetings to discuss how to boost sales.

Marketing Manager reported the latest result of a reader survey, "More than half of the respondents thought that the magazine content is too European-American and does not suit the Asian demand for fashion." He recommended that a reform of the magazine should be taken. For example, local fashion features should be added to compete with the local and Japanese fashion magazines.

"The Asians' complexion and stature differ from those of the Europeans. We should provide local readers Asian fashion news. In addition, in response to the popularity of mobile phone platforms, we can interact with readers through social platforms in order to build customers' loyalty," agreed Chief Executive Officer.

Then, Human Resources Manager reported, "The staff turnover problem in the Marketing Department has become serious recently as promotion is difficult and they are not being recognised." Chief Executive Officer responded, "Retaining talent is what our parent company concerns most. We would increase wages to retain good employees."

- (a) Explain one advantage and one disadvantage in adopting undifferentiated marketing by TREND magazine. (4 marks)
- (b) From the perspective of customer relationship management, list two ways to TREND magazine to enhance its customer loyalty. (4 marks)
- (c) According to the below theory, explain whether a pay rise can effectively motivate the marketing staff. (4 marks)
  - (i) Maslow's Hierarchy of Needs Theory
  - (ii) Herzberg's Dual-factor Theory
- (d) TREND magazine has set an objective to the marketing team. Their target is to attract 10 000 members through the social platform within one month. Describe how can evaluate and reward employee's performance by performance management. List the three steps involved. (6 marks)

(Total: 18 marks)

7. Flavour Sushi is a small Japanese sushi restaurant with three branches. A certain number of diners are fans of its nigiri sushi (手握壽司). With Hong Kong people rapidly getting savvy about food, such as taste and choice of food, the owner decided to provide hot food items in the restaurant to attract diners who do not like raw food. In an executive meeting, the owner proposed a reform of providing hot food items.

“This is a good proposal. Some regular customers reflected that they would like to have more hot food items in the menu so as to take care of friends and family with different eating preferences,” said Marketing Manager.

The owner is considering providing skewers, hot pot or noodles in the menu, but he has not yet mastered the exact preferences of diners. He commanded the Marketing Manager to conduct a market research within one month, and report the results in the next meeting.

“Although reforms can attract new customers, one thing should be noted is that we have to invest in the new plan, such as adding stoves and other equipment. Before the implementation of the plan, we should make a prudent decision,” said Finance Manager.

The owner informed the Finance Manager, “You should first estimate what the expected cash flows from the new project will be and evaluate the payback period required for installing new equipment. The items will continue to be discussed at the next meeting.”

- (a) Suggest two data collection methods that Flavour Sushi can use to collect information on diners’ preference on hot food. Illustrate each method with an example. (4 marks)
- (b) Explain three financial factors that Flavour Sushi should consider in making capital investment decision of buying stoves and equipment. (6 marks)
- (c) Take Flavour Sushi as an example. Explain one advantage and one disadvantage in using payback period in assessing the investment project over net present value. (4 marks)
- (d) Suppose Flavour Sushi finally introduce Japanese hot pot in the menu. Explain two external factors in affecting its price strategy. (4 marks)

(Total: 18 marks)

**SECTION C (20 marks)**

Answer **ONE** question in this section.

8. Manfred is running an upstairs store "Man Art", selling hand-made leather handbags, leather accessories and tools. Manfred is often worried about cash flows. He plans to apply bank loans in order to buy a large leather machinery.
- (a) Explain the basic principle of cash management that Manfred should hold. Explain with examples. (10 marks)
- (b) Using the credit standard (5Cs), explain the credit policy of a bank on "Man Art". (10 marks)
- (Total: 20 marks)
- 
9. A local online shopping platform plans to expand its online business under the boom of online shopping. However, with the sales getting bigger, the workload of the logistics department of the online shopping platform also increased greatly.
- (a) With reference to the characteristics of e-marketing strategies, suggest the market segmentation method that the online shopping platform can adopt. (10 marks)
- (b) With respect to the logistic employees who have been working overtime and under physical stress in a long-term, suggest the non-monetary rewards that can be offered in order to motivate them effectively. Illustrate with examples. (10 marks)
- (Total: 20marks)

**END OF PAPER**



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

**SECTION A**

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

1.  
**Answer: D**  
 (1) is correct. Determining the personnel strategies with the top management is a duty of the Human Resources Department. It will access the industry prospect and plan the workforce needed for the bank.  
 (2) is correct. Human Resources Department provides training and development to increase employees' skills, knowledge and ability.  
 (3) is correct. Human Resources Department will recruit and select the right candidate for the bank.

2.  
**Answer: B**  
 (1) and (3) are incorrect. Drawings are not an expense. It will not affect the net profit.  
 (2) is correct. Drawings are the resources of a business taken by its owner for personal use. Drawings will be deducted from capital.

3.  
**Answer: B**  
 (1) is incorrect. It will increase the balance of trade payables.  
 (2) is incorrect. It will increase the balance of other payables.

4.  
**Answer: D**  
 A is incorrect. The simple organisational structure of SMEs allows quick decision making. Therefore, SMEs is more flexible in responding to the complex changing business environment.  
 B is incorrect. SMEs usually have a lower operating cost in its operation.  
 C is incorrect. There are some narrow but profitable markets in the business sector, of which large companies may find them less attractive for development. SMEs can develop

and survive by developing in the narrow markets.  
 D is correct. Labour turnover rate is usually higher in an SME. Reasons include the lack of future prospects as well as lack of employee benefits.

5.  
**Answer: A**  
 A is correct. Employees with a monthly income of \$7 100 or below are not required to contribute to an MPF scheme, but their employers are required to make contributions for them.  
 B. is incorrect. Employees in the construction industry for a fixed period of less than 60 days belong to casual employees who are required to make contributions to an MPF scheme.  
 C is incorrect. MPF scheme members are only allowed to withdraw their money when they reach the retirement age of 65. However, in some situations including total incapacity, they can withdraw their accrued benefits before the retirement age.

D is incorrect. Both the employer and employee can choose to make extra voluntary contributions.

6.  
**Answer: B**  
 A is incorrect. Risk reduction means taking preventive measures to minimise the potential hazards and loss. Mr. Chan did not take preventive measures but stop selling all chicken products.  
 B is correct. Risk avoidance means not to engage in activities associated with a specific risk. Mr. Chan stopped selling all chicken products and avoid all potential loss. The strategy used is risk avoidance.

C and D are incorrect. The business itself did not assume the risk nor transfer the possible

losses to other parties.

7.  
**Answer: C**  
 A private limited company is a legal entity with 1 to 50 owners. It does not need to disclose its financial statements to the public. A public limited company is a legal entity with unlimited number of owners. It has to disclose its financial statements to the public.

8.  
**Answer: A**  
 (1) is incorrect. The profits tax rates of a private limited company and public limited company are the same. In 2014/2015, the profits tax rate for a sole proprietorship and partnership is 15% while that for limited company is 16.5%.

(2) is correct. The shareholders of a public limited company can transfer their ownerships freely without acquiring consents of the existing shareholders. If other individuals or companies acquire sufficient shares, the existing shareholders may lose control over the company.  
 (3) is incorrect. The shareholders of a public limited company can transfer their ownerships freely without acquiring consents of the existing shareholders. The flexibility in transferring ownership is higher.

9.  
**Answer: B**  
 Nominal rate of return is the stated interest rate while the effective rate of return is the rate of return that includes the interest reinvested during a year. Therefore, the nominal rate of return is 7%. Effective rate of return =  $(1 + \frac{7\%}{4})^4 - 1 = 7.2\%$  .

10.

**Answer: B**

Economic factors include the production cost, unemployment rate, national income and etc of an economy. The change of visit scheme of the Mainland travelers belongs to a political factor.

11.

**Answer: A**

(1) is incorrect. World Trade Organisation formulates the trade policies and forces the members to implement.

(2) is correct. World Trade Organisation settles trade disputes and imposes sanction against members violating the rules.

(3) is incorrect. World Trade Organisation does not provide loans to developing countries. It is the function of the World Bank.

12.

**Answer: D**

(1), (2) and (3) are correct. Providing after-sales services can ensure that the products meet the customers' expectation. It can help the store to establish a positive word of mouth and build up customer loyalty as well as increase the sales revenues.

13.

**Answer: B**

B is correct. A trial balance is a list of all debit and credit balances of the ledger accounts. The main purpose of preparing a trial balance is to check the arithmetical accuracy of bookkeeping entries.

C is incorrect. If a trial balance does not agree, it indicates that accounting errors arise but it cannot find them out.

14.

**Answer: A**

Donating to segments of the community is an example to show that the company is fulfilling its responsibility to the community.

15.

**Answer: D**

A and B are incorrect. The question does not mention that an employee directly reported to two managers. This does not violate the unity of command.

C is incorrect and D is correct. Unity of direction means all employees of a company follow the same plan and objective. The two managers have different objectives and they may not be accomplished at the same time. It violates with the unity of direction.

16.

**Answer: A**

(1) and (2) are correct. Return on capital employed and current ratio can be calculated when only the statement of financial position of a sole proprietorship is provided.

(3) is incorrect. Net profit ratio can only be calculated with sales figures. An income statement of a sole proprietorship is also needed.

17.

**Answer: A**

Asset = Capital + (Revenues – Expenses) + Liabilities – Drawings

∴ \$86 000 = \$(70 000 + 10 000) + (40 000 – 25 000) – Drawings

Drawings = \$70 000 + 10 000 + (40 000 – 25 000) – 86 000 = \$9 000

18.

**Answer: C**

A is incorrect. If the oil price rises, the operation cost of airlines will increase. The share prices will fall.

B is incorrect. The strike of the flight attendants shows that the company has poor management. The share price will fall.

C is correct. A company's dividend policy affects its share price. Distributing more dividends can attract more investors. Therefore, its share price will rise.

D is incorrect. If a company has bad business performance, the market may perceive it as unfavourable factor and the share price will fall.

19.

**Answer: B**

(1) is correct. Hong Kong engages in primary, secondary and tertiary production. The importance of the primary and secondary sectors is declining while that of the tertiary sector is increasing.

(2) is incorrect. Hong Kong is an open economy with no limits on capital flow.

(3) is correct. Hong Kong is the hub of Asia-Pacific countries with well-developed infrastructure and communication facilities. It acts as a stepping stone of European countries to enter the Mainland market.

20.

**Answer: D**

A is incorrect. Resources intended to use in business are known as assets.

B is incorrect. Business resources intended to resell for making profit are known as current assets.

C is incorrect. Non-current liabilities are debts with a maturity of more than 12 months.

D is correct. Debts with a maturity of less than 12 months are known as current liabilities.

21.

**Answer: B**

(1) is correct. For a tall type organisational structure with many levels, messages are slowly transmitted, which may lead to misunderstanding and delay. For a flat type organisational structure, messages can be quickly transmitted, which will have less misunderstanding.

(2) is incorrect. Span of control means the number of subordinates a supervisor manages. There are many managers in a tall type organisational structure and each manager manages fewer subordinates. For a flat type organisational structure, there are fewer managers. Each manager manages more subordinates.

(3) is correct. A tall type organisational structure requires the coordination of different levels before taking action. The decision-making is slower with lower flexibility. A flat type organisational structure has fast decision-making and higher flexibility.

22.

**Answer: B**

$\frac{\text{Current assets}}{\text{Current liabilities}} = 1.5$

Current assets = 1.5 Current liabilities

$\frac{\text{Current assets} - \text{Inventory}}{\text{Current liabilities}} = 1.1$

Current assets = 1.1 Current liabilities + 80 000

∴ 1.5 Current liabilities = 1.1 Current liabilities + 80 000

Current liabilities = \$200 000

Current assets = \$1.5 × 200 000 = \$300 000

∴ Working capital = \$300 000 – 200 000 = \$100 000

23.

**Answer: D**

A, B and C are incorrect. No sufficient information is provided in the question.

24.

**Answer: B**

(1) is correct. In a bull market, the stock prices are increasing.

(2) is incorrect. The HSI is a popular benchmark index of the performance of the Hong Kong stock market.

(3) is correct. There are 50 constituent stocks in the HSI.

25.

**Answer: D**

The amount of stationery (an expense) will decrease and thus it should be credited.

26.

**Answer: B**

A is incorrect. The minimum market capitalisation for the Main Board is \$200 million while that of GEM is \$100 million.

B is correct. The listing requirements for the Main Board such as minimum market capitalisation and operating history is higher than that of the GEM.

C is incorrect. There is a higher risk involved to invest in GEM listed companies, the expected returns are usually higher than that of the Main Board.

D is incorrect. As at November 2015, there are 1 624 companies listed on the Main Board while there are 218 companies listed on the GEM.

27.

**Answer: C**

A and D are incorrect. Financial statements do not provide these kinds of information.

B is incorrect. Only investors will use the accounting information provided in financial statements to assess the investment value of the company.

C is correct. Suppliers sell goods or services to customer on credit. They will use the accounting



information provided in financial statements to assess the repayment ability of the company.

28.

**Answer: C**

(1) is incorrect. Affinity credit cards are jointly issued by two institutions, a financial institution and a non-financial institution.

(2) is correct. Credit rating represents the ability of an individual to repay a debt in forms of a rating.

(3) is incorrect. A bank overdraft is a kind of revolving consumer credit. The client can draw credit any time within the limit granted, and there is interest involved for the loan.

(4) is correct. TransUnion in Hong Kong is the first and only consumer credit reference agency in Hong Kong.

29.

**Answer: B**

(1) is correct. Entrepreneurs bear risks and aim at profit making. They will make use of the inputs of natural resources, labour and capital to produce goods or services.

(2) is incorrect. SMEs are companies which are independently owned and operated. They are not a subsidiary of a multinational corporation. Operators are the owners of the company. They have the autonomy in the business operation.

(3) is correct. According to the data of Trade and Industry Department in 2013, the number of SMEs accounted for more than 98% of the total number of companies in Hong Kong.

30.

**Answer: D**

A, B and C are incorrect. Change in interest rate, government policy and general economic situation belong to external factors affecting share prices.

D is correct. Repurchasing company's stock is a decision made by the management. It belongs to an internal factor affecting share prices.

**SECTION B**

1.(a) Public limited company (1 mark)

Characteristics:

- Financial information of the public limited company must be disclosed to the public
- There is no upper limit on the number of shareholders
- Shareholders have limited liabilities
- A public limited company has continuity

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

(b) External factors:

- Overall economic condition, e.g. national income and unemployment rate
- Industry prospects, e.g. industry development
- Interest rate, e.g. cost of borrowing
- Government policy, e.g. land policy and fiscal policy
- Speculation
- Political factors, e.g. change in political conditions

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

2. Functions:

- Human Resource planning: assess the industry prospect and plans the workforce needed for the business.
- Staffing: select the most suitable candidates for the company through the process of recruitment and selection, etc.
- Training and development: provide employees with necessary skills, knowledge and ability to perform their job through trainings.
- Performance management: prepare a fair performance appraisal as the basis of a reward and feedback system for employees of the company.
- Industrial relations: maintain a good relationship between employer and employees by holding different activities

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

3. Functions:

- Measure the performance of the stock market
- Benchmark to evaluate investment
- Provide the constituent companies with good reputation and make it easier for them to raise capital

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

4.(a) Going concern concept assumes that businesses will be continued in a foreseeable future (1 mark). Therefore, all assets should be recorded at historical cost instead of the current market value (1 mark).

(b) Business entity concept is violated (1 mark). It assumes a business is separated from its owner (1 mark). Therefore, the

bookkeeper should record it as drawings in the books and should not show the machine in the statement of financial position as at 31 December 2015 (1 mark).

5. (a)

**Grace  
Statement of Financial Position as  
at 31 December 2015** ½

<b>ASSETS</b>	\$	
<b>Non-current assets</b>		
Equipment	200 000	½
<b>Current assets</b>		
Inventory	70 000	½
Rental deposit	10 000	½
Accounts receivable	104 000	½
	<u>184 000</u>	
<b>Total Assets</b>	<u>384 000</u>	
<b>CAPITAL AND LIABILITIES</b>		
<b>Capital</b>		
Balance as at 1 January 2015	160 000	½
Add: Net profit for the year	66 000	½
	<u>226 000</u>	

**Non-current liabilities**

Loan from Dora 50 000 ½

**Current liabilities**

Bank overdraft 26 000 ½

Accounts payable 82 000 ½

108 000

**Total liabilities** 158 000

**Total Capital and Liabilities** 384 000 (5)

(b) Reasons:

- Share of workload
- Share of risk
- More sources of capital
- Complementary skills

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

(c) Stakeholder:

- creditors
- the government
- public

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

6. (a)

**Anna  
Income Statement for the year  
ended 31 December 2015** ½

	\$	\$	
Sales		152 000	½
Less: Returns inwards		5 000	½
Net sales		<u>147 000</u>	
Less: Cost of goods sold			
Opening inventory	47 000		½
Purchases	55 000		½
Carriage inwards	2 300		½
	<u>104 300</u>		
Less: Closing inventory	68 000	36 300	½
Gross profit		<u>110 700</u>	
Less: Expenses			
Rental expenses	96 000		½
Sundry expenses	31 000	127 000	½
Net loss		<u>(16 300)</u>	½

(5)

(b) By function (1 mark)

(c) Characteristics:

- Measurable: enhancing the image of the sales team cannot be measured.
- Time-bound: the goal does not mention the time allowed to accomplish the goal
- Relevant: enhancing image of a sales team may not increase the company profits

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

**END OF PAPER 1**



**BUSINESS, ACCOUNTING  
AND FINANCIAL STUDIES  
PAPER 2B  
SECTION A**

1.  
Usefulness:
- Encourage various departments of a firm to plan ahead: In the budgeting process, each department will carefully analyse its capability and limitations. It enables them to discover potential problems and opportunities.
  - Improve communication and coordination within a firm: In the budgeting process, different departments will work together, enhancing inter-department communication.
  - As a benchmark to evaluate the performance of different departments and employees: Budgeting can be regarded as the objective of a department, it also serves as a benchmark to evaluate the performance of the employees.
  - Save management time and effort: Budgeting can help the senior management to evaluate the performance of various departments, effective use of time can be achieved.
- (2 marks for each relevant usefulness, max. 4 marks)

2.  
Psychological factors:
- Motivation: The consumer will make purchase decision in order to fulfill their needs that are not yet satisfied.
  - Self-concept: Consumers will choose the products that match with their self image.
  - Perception: Consumers will be affected by external stimuli, and then internalized them into their individual perception, affecting their purchase decision.
  - Learning: Consumers will change their consumer behaviour after gaining new knowledge and accumulating experience.
  - Belief and attitude: Beliefs and attitude towards something will affect one's purchase decision.
- (2 marks for each relevant factor, max. 6 marks)

3.  
Advantages:
- Its motivational power is stronger. The company can enhance its quality of service, so as the sales.
  - As the returns of employees are related to their performance, the company can attract talent more easily, so as to increase the quality of human resources.
- (2 marks for each relevant advantage, max. 4 marks)

4.  
Competitive advantages and examples:
- Product differentiation: Use organic hair care products, in order provide more valuable products than its competitor.
  - Service differentiation: Offer hair analysis and image suggestions, demonstrating their unique products and services.

- People differentiation: Improve service by employing top hairstylist.
  - Image differentiation: Promote Korean stylish imaging, highlighting its uniqueness.
- (2 marks for each relevant competitive advantage and example, max. 6 marks)

5.  
Ways:
- Layoff: Terminate the employment relationships with its employees.
  - Natural attrition: Reduce the number of employees naturally and gradually by resignation, retirement or death.
  - Voluntary resignation inducements: Offer financial incentives to attract employees to choose early retirement or voluntary resignation.
- (2 marks for each relevant way, max. 4 marks)

**SECTION B**

- 6.(a)  
Advantage:
- The content of the magazine is the same in different countries, only translation work is involved. It can save production costs, such as editorial staff.
  - All countries can enjoy the brand name effect as they are using the same brand, saving marketing costs.
- (2 marks for each relevant advantage, max. 2 marks)

- Disadvantage:
- The lifestyle and culture varies in different regions, the magazine cannot satisfy the needs of readers in different regions.
- (2 marks for each relevant disadvantage, max. 2 marks)

- (b)  
Ways:
- Meeting the expectations of customers: The readers expect the magazine to provide Asian fashion information, therefore TREND can take reform on the content in order to meet their expectation. It can enhance its customer loyalty.
  - Establish close customer bond: Upload the latest news regularly and offer small gifts through the social platform, so as to strengthen their ties with readers.
  - Offering add-on services: Organise readers' meeting and offer tips on costume by fashion designer, so as to provide personalised additional services to readers.
- (2 marks for each relevant way, max. 4 marks)

- (c)(i)  
No (1 mark). The high turnover rate is due to lack of promotion opportunities and recognition, reflecting the higher-order needs such as ego needs, of the employees cannot be satisfied. As a pay rise can only fulfill their lower-order needs such as physiological needs, it cannot motivate employees effectively (1 mark).

- (ii)  
No (1mark). According to the dual-factor theory, salaries belong to a hygiene factor. Its existence can only avoid employees from being dissatisfied. Therefore, a pay rise fails to motivate employees effectively (1 mark).

- (d)  
Steps:
- Performance appraisal and monitoring goal achievement: Under a specific and clear objective, the management can measure whether the goal of attracting 10 000 members can be achieved within the preset time frame of one month. In addition, the management can observe what methods they have been used in achieving the target.
  - Provide feedback on performance appraisal result: Upon the completion of appraisal, the management has to provide coaching to marketing staff continuously, such as correcting poor performance and praising good performance.
  - Offering rewards based on performance appraisal: Offer rewards or promotion chance to employees who perform well, offer training to those who cannot meet the standard, so as to motivate and retain staff.
- (2 marks for each relevant step, max. 6 marks)

- 7.(a)  
Methods:
- Survey research method: Conduct face-to-face interviews on the streets, collecting Hong Kong people's preference on Japanese hot food.
  - Qualitative research method: Invite and gather regular customers to have focus group, collecting their preference on Japanese hot food.
  - Observational research method: Assign staff and chefs to observe diners' preference on hot food at other Japanese restaurant.
- (2 marks for each relevant method, max. 4 marks)

- (b)  
Financial factors:
- Investment cost: The higher the purchase price and installation cost of the cooking equipments, the lower attractiveness of the investment.
  - Investment income: The higher the income the purchase of cooking equipments can generate, the higher attractiveness of the investment.
  - Investment horizon: The purchase of cooking equipments is a once-off capital investment and maintenance is the only subsequent cost. As the investment horizon is relatively short, the investment is more attractive.
  - Time value of money: The higher the discount rate, the lower the present value of the cash flow arising from the new dishes, and so as the lower the attractiveness of the investment will be, vice versa.
  - Riskiness of the project: The higher the uncertainty of the cash flow generated to the restaurant, the riskier the investment will be. If the rate of return is not

proportional to the level of risk, the investment will be less attractive.

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

(c)  
Advantage:

- Easy to calculate and understand: Its calculation is more simple and understandable than net present value. It is more suitable for a small scale capital project. In addition, the management of the restaurant is not financial professional, using payback period for assessment is better than net present value.

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

Disadvantage:

- Time value of money is ignored: Payback period ignores the time value of money, while the net present value taken it into account.
- Cash flows after the payback period are ignored: Payback period only consider cash flow within the payback period, while the net present value considers all cash flows.

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

(d)  
External factors:

- Monopolistic market: Although there are a number of Japanese restaurants offering hot pot in the market, the taste is different as they are using different ingredients and cooked by different chefs. Therefore, Flavour Sushi can enjoy a greater freedom in its pricing strategy.
- Consumer demand: Flavour Sushi can assess how their diners perceive the value of the new dishes. If they perceive the new dishes as unique and tasty, the restaurant can adopt an aggressive pricing strategy.
- Competitors' strategy: It can take into account the product and pricing strategies of the restaurants in the same district, serving the same target market, in order to offer sales promotion and adjust the price.

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

### SECTION C

8.(a)  
Principles and examples:

- Accelerating cash inflows: Manfred can encourage customers to pay in cash by offering cash discounts or premiums. This enables the store to receive cash immediately and reduce paying service fees to the credit card company.
- Delay cash outflows: Manfred can try to delay cash payments, such as make payments at the end of the credit period, and by cheque on Friday, so as to enjoy a longer period of disbursement float. It can extend the time of cash to stay in the business.
- Ensure the cash inflows precede cash outflows: Manfred should make sure cash inflows are sufficient to meet the cash outflows by preparing a cash budgeting. It can forecast the future cash inflows and outflows, ensuring

cash inflows precede outflows and the amount is larger.

(3 marks for each relevant principle and example, max. 10 marks)

(b)  
5Cs:

- Capital: The bank will consider the scale of "Man Art", such as the products variety and shop fitting, in order to assess whether Manfred has invested sufficient money in his business and his determination to make a profits before making its credit policy toward Manfred.
- Capacity: The bank will check the repayment history of Manfred and the cash flows of his business, in order to assess his ability of repayment.
- Collateral: The banks will consider whether "Man Art" has tangible or financial assets as collateral for credit.
- Condition: The bank will examine the current economic environment and market demand for its products, in order to assess the purpose of making the loan is profitable.
- Character: The bank will consider the entrepreneurship experience of Manfred, his educational background and personality, so as to assess his personal credit worthiness.

(2 marks for each relevant C, max. 10 marks)

9.(a)  
Characteristics and strategy:

- 1:
  - Characteristic: There is no physical boundary and time constraints in e-marketing.
  - Strategy: The online shopping platform can use geographic segmentation, to promote products that suit the needs and preference of different customers in different countries.
- 2:
  - Characteristic: It can make use of the Internet to promote its product.
  - Strategy: The online shopping platform can use demographic segmentation, to deliver product information through the Internet to the groups who have a greater chance to access the Internet, such as young people and high-income group.
- 3:
  - Characteristic: E-marketing provides an opportunity for customers to design and create their own personalised products.
  - Strategy: The online shopping platform can use psychographic segmentation, and offer customised products or services to the customers who like customised products and treats them as target market segment.

(3 marks for each relevant characteristic and strategy, max. 10 marks)

(b)  
Non-monetary rewards and examples:

- Protection programmes: Long-term physical work will result in muscle strain. Regular body check and health insurance enables employees to have early detection of potential health problems and support them of the medical expenses.

- Paid time-off: Paternity and birthday leave as well as other special paid leave can demonstrate the company's concern to the employees and their families. Paid leave can also improve their physical and psychological well-being.
- Study subsidy: The company can subsidise their employees to enroll in logistic programme. This can promote their personal growth, increasing the opportunities for promotion and so as their sense of belonging to the company.

(3 marks for each relevant reward and example, max. 10 marks)

END OF PAPER