

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. Mr. Li is a director of a business research centre. He employs several well-known economists from foreign country for researching. He should adopt \_\_\_\_\_ leadership style because \_\_\_\_\_.
- A. laissez-faire.....research work requires a high degree of freedom
  - B. participative.....the economists are experienced
  - C. supportive.....it can increase the loyalty of workers
  - D. directive.....quick decision can be made

2. A firm returned goods to a supplier. The goods were previously purchased on credit and have not been paid yet. 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.	decrease	decrease
B.	increase	increase
C.	increase	decrease
D.	unchanged	unchanged

3. Which of the following statements about management is/are correct?

- (1) A clear organisational structure can improve the performance of the company.
- (2) Good management can raise operational efficiency.
- (3) Only profit-making entities need management.

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

4. Mr. Chan plans to join an investment plan. The bank provides him with the following three plans:

	<b>Plan 1</b>	<b>Plan 2</b>	<b>Plan 3</b>
Annual interest rate	8%	9%	10%
Frequency of compounding	Compounded monthly	Compounded quarterly	Compounded yearly

Which plan should Mr. Chan choose for the highest return?

- A. Plan 1
- B. Plan 2
- C. Plan 3
- D. Undetermined

5. Which of the following statements are correct?
- (1) Division of work will increase the productivity of workers
  - (2) An employee should directly report to one manager only.
  - (3) The supervisor does not need to bear any responsibility after assigning the authority to subordinates.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

**Based on the following information, answer Questions 6 and 7:**

Mr. Chan started a business on 1 January 2015. For the year ended 31 December 2015, sales and purchases amounted to \$254 000 and \$189 000 respectively. The net profit ratio was 35%. The amount of inventory of the firm as at 31 December 2015 was \$60 000.

6. What is the gross profit ratio of the firm for 2015 (to two decimal places)?
- A. 25.59%
  - B. 31.75%
  - C. 49.21%
  - D. 74.41%
7. What is the amount of expenses of the firm for 2015?
- A. \$23 901
  - B. \$36 100
  - C. \$88 900
  - D. \$165 100
8. Which of the followings are not factors affecting the credit worthiness of an applicant??
- A. Applicant's occupation
  - B. Applicant's past payment record
  - C. Applicant's assets
  - D. Assets of applicant's parents
9. Which of the following is not the advantage of globalisation?
- A. The employment of low-skilled workers in developed countries improves.
  - B. Firms can sell their products in different countries.
  - C. It brings high-quality talents.
  - D. It helps knowledge and technology transfers.

10. Which of the following statements about Hong Kong are correct?
- (1) All goods in Hong Kong are tariff-free.
  - (2) Trading and logistics is one of the four economic pillars in Hong Kong.
  - (3) Hong Kong is a member of Asia-Pacific Economic Cooperation (APEC).
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
11. Wood Company rented out an office to Water Company for \$8 000 per month. For the year ended 31 March 2016, \$88 000 was received from Water Company. Wood Company only recorded this amount in the income statement. Which of the following accounting principles has been violated?
- A. Accrual
  - B. Business entity
  - C. Consistency
  - D. Going concern
12. Compared with a public limited company, a general partnership has the following disadvantages except \_\_\_\_\_ .
- A. lack of continuity
  - B. unlimited liability of the partners
  - C. higher profits tax rate
  - D. lower flexibility in transferring ownership
13. Which of the followings are the advantages of buying a company's preference shares over its ordinary shares?
- (1) Guaranteed higher returns.
  - (2) Voting rights in the general meeting.
  - (3) Preference shareholders receive dividends before ordinary shareholders.
  - (4) When the company is liquidated, preference shareholders get back their investment before ordinary shareholders.
- A. (1) and (4) only
  - B. (3) and (4) only
  - C. (1), (3) and (4) only
  - D. (2), (3) and (4) only
14. \_\_\_\_\_ will decrease the amount of net sales, while \_\_\_\_\_ will decrease the balance of trade receivables.
- A. Credit purchases.....credit sales
  - B. Credit sales.....credit purchases
  - C. Discounts allowed.....returns inwards
  - D. Returns inwards.....discounts allowed



15. Which of the following pairs about life stage and its financial needs is incorrect?

	<u>Life stage</u>	<u>Major financial needs</u>
A.	Pre-retirement	Estate planning
B.	Family with grown-up children	Prepare money for children's university education
C.	Newly married couples	Prepare for family expenses
D.	Young single who just starts their career	Create and accumulate wealth

16. Miss Cheung is a financial manager of an enterprise. She is now evaluating the firm's short term assets and liabilities to set a credit policy with a manageable level of credit risks.

Which of the following financial function does the above involved?

- A. Capital investment appraisal
- B. Working capital management
- C. Financial planning and budgeting
- D. Debt financing

17. Which of the following pairs about key business functions is incorrect?

	<u>Key business functions</u>	<u>Jobs</u>
A.	Human resources management	Compensation and benefit management
B.	Marketing management	Quality management
C.	Operations management	Production planning and control
D.	Risk management	Purchase fire insurance

18. Which of the followings are examples of unethical business practices?

- (1) Often accept treats from subordinates, as a condition for recommending their promotion
  - (2) Use of the Internet for personal use during office hours
  - (3) Salesperson hides important information of the products from customers
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

19. Which of the following transaction(s) should be recorded in the purchases account of a shop selling furniture?
- (1) Accepted a wooden table from a customer as a settlement of his debt. The wooden table will be resold.
  - (2) Purchased chairs on credit for resale.
  - (3) Purchased second-hand cupboard by cheque for resale.
- A. (2) only
  - B. (1) and (2) only
  - C. (1) and (3) only
  - D. (1), (2) and (3)
20. Which of the followings is not a possible reason for the shares of a technology company to increase?
- A. Government inputs more resources to develop Hong Kong as a technological centre.
  - B. A famous management expert is newly appointed as the Chief Executive Officer.
  - C. Interest rate increases.
  - D. More dividends will be distributed by the company.
21. Carmen operates a desert shop with her friend and employs a few workers. However, Carmen and her friend do not know much about financial management. Even their desert is popular among customers, net loss still occurs. Her workers left the shop and the shop is going to close down.
- Which of the following disadvantages of small and medium enterprises (SMEs) does the above case reveal?
- (1) Lack of management ability
  - (2) Difficulties in accessing capital
  - (3) Low flexibility
  - (4) High labour turnover rate
- A. (1) and (4) only
  - B. (2) and (3) only
  - C. (1), (2) and (4) only
  - D. (1), (2), (3) and (4)
22. A successful entrepreneur has the following characteristics except \_\_\_\_\_.
- A. innovative
  - B. strong desire for independence
  - C. excellent academic result
  - D. willing to take risk
23. Which of the following accounts must be in credit balances on a trial balance?
- A. Electricity
  - B. Drawings
  - C. Capital
  - D. Carriage outwards

24. On 28 December 2015, a firm bought a piece of furniture and made a payment of \$5 500 by cheque. The list price of the furniture is \$23 000 and a trade discount of \$1 700. As at 31 December 2015, its market value had fallen to \$19 500. According to \_\_\_\_\_ concept, the furniture should be recorded at \_\_\_\_\_ in the statement of financial position as at 31 December 2015.

- A. historical cost.....\$15 800
- B. business entity.....\$19 500
- C. historical cost.....\$21 300
- D. business entity.....\$23 000

25. Which of the following statements about joint venture is/are correct?

- (1) It is easier to assess to sources of raw materials and enter a new market.
- (2) Different partners share the profit of joint venture equally.
- (3) Hong Kong Disneyland is an example of joint venture.

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

26. Which of the following is/are internal factor(s) affecting share prices of a cosmetic company?

- (1) A substance leading to cancer is found in the new lip gloss launched by the company.
- (2) Government tightens the number of visitors to Hong Kong.
- (3) The cosmetic company merges with a beauty group.

- A. (3) only
- B. (1) and (2) only
- C. (1) and (3) only
- D. None of the above

27. Which of the followings about Main Board and Growth Enterprise Market (GEM) is correct?

	<u>Main Board</u>	<u>GEM</u>
A. Market capitalisation	Lower	Higher
B. Investment return	Usually lower	Usually higher
C. Number of companies	Fewer	More
D. Investment risk	Higher	Lower

28. If a company is not socially responsible to its creditors, which of the followings are the possible consequences?

- (1) being more difficult to obtain loans
- (2) facing boycott of goods and services from consumers
- (3) facing more strict government regulations
- (4) facing higher repayment interest

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

29. Which of the following statements are correct?

- (1) An income statement shows the profitability of a company.
- (2) A statement of financial position shows both the profitability and liquidity of a company.
- (3) Net profit for the year will be shown in both the income statement and the statement of financial position.

- 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 double entries are correct?

	<u>Transactions</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
A.	Sold inventory at cost on credit	Inventory	Capital
B.	Purchased postage stamps in cash	Postage	Purchases
C.	Repaid a creditor by cheque	Accounts payables	Bank
D.	Paid bank overdraft interest	Bank overdraft	Bank

END OF SECTION A



**SECTION B** (30 marks)

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

1. Lisa is an owner of organic food store with 20 employees. She was responsible for all daily operations and managements, such as promotion and food purchasing. Recently, she has sold healthy soup and soup packages because she has an insight into the busy life style and the concern of health of Hong Kong people. It was very popular. A friend of Lisa suggested her to set up an operations department to reduce her work load.
- (a) State two functions of an operations department in Lisa's food store. (2 marks)
- (b) Explain two characteristics of small and medium enterprises (SMEs) reflected by Lisa's store. (4 marks)
- (c) State one importance of SMEs on Hong Kong economy as shown by Lisa's store. (2 marks)
2. Miss Li wants to study a design course which costs \$80 000 three years later. The following are two of the investment proposals:
- Proposal 1: Invest \$70 000 into Bank A for three years. Suppose the interest rate is 4% per annum, compounded half yearly.
- Proposal 2: Invest \$32 000 into Bank B in the beginning of the first year and second year respectively. Suppose the annual interest rate is 10%. It is a three year plan.
- (a) Based on the financial information given, calculate (to the nearest dollar) the present value of Proposal 1 and Proposal 2 respectively. (5 marks)
- (b) State the definition of nominal rate of return and effective rate of return. (2 marks)
3. Record the following transactions in Mary's account of a firm. Also, balance off the account on 31 May 2016. (5 marks)
- 2016
- May 1 Sold goods \$20 000 on credit to Mary.
- 9 Mary returned goods \$800 to the firm.
- 13 Mary repaid \$5 000 to the firm, subject to a discount of \$400.

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

4. Jenny is the sole owner of a firm. Recently, she was not satisfied that the human resources department recruited an inexperienced bookkeeper. The bookkeeper has the following queries:

- (i) The closing entries of drawings account at the end of the period
- (ii) The difference between carriage inwards and carriage outwards in nature and accounting treatment

(a) Briefly explain to the bookkeeper for each of the above queries. (5 marks)

(b) State the key business function to which the bookkeeper belongs. (1 mark)

(c) State two functions of human resources department to ensure the qualification of job applicants and employees. (4 marks)

5. Given below is a list of accounting terminology:

- Accounting equation
- Inventory
- Receivables
- Furniture
- Double entry accounting
- Posting

(a) Select from the above an appropriate accounting term that best fits each of the definitions / descriptions below:

(i) \_\_\_\_\_ show the relationship between assets, liabilities and capital.

(ii) \_\_\_\_\_ is the business resources intended for resale.

(iii) \_\_\_\_\_ is a system where each transaction should be recorded with equal amount of debits and credits.

(3 marks)

(b) State two limitations of a trial balance. (2 marks)

(c) A trading firm has recruited an assistant, Tommy. Tommy is responsible for bookkeeping and marketing. At the same time, the owner asked him to supervise the other two assistants of the same rank with him.

(i) What principle of effective management has been violated in the above case? (1 mark)

(ii) Suggest one problem that might arise to the firm when the principle in (c)(i) is violated. (2 marks)

(iii) Briefly explain one advantage of adopting management by objectives (MBO). (2 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. After working out a marketing plan, describe and explain the remaining three steps of managing a marketing activity. (6 marks)
  
2. Describe two ratios that can be used to measure the management efficiency of an enterprise and their implications. (4 marks)
  
3. Explain two advantages to an enterprise in offering regularly training to its employees. (4 marks)
  
4. Describe the operating cycle and cash conversion cycle, and their meaning respectively. (6 marks)
  
5. Explain why the provision of job rotation to the new recruits can help the development of a quality workforce with two reasons. (4 marks)



**SECTION B** (36 marks)

Answer **ALL** questions in this section.

6. MOTSIDA is a local chain store of leisure clothing with its own production plant.

Affected by the weak retail market, the company's sales figures recorded a decline for two consecutive quarters. From last year, MOTSIDA has noticed that Hong Kong people love sports, especially jogging and hiking, and decided to introduce sportswear. The company's management team is conducting meetings to discuss the direction of its development plans.

With an intense sportswear market competition, the company has to stand out by fully grabbing the market opportunities, the Marketing Manager of the company claimed. He said, "according to a market research conducted previously, in addition to men's sportswear, the demands for ladies' and children's are also very strong. We should target them as our target customers. In quality aspect, consumers are most focused on the functions of sportswear, such as quick-dry and ventilation functions." As the sportswear available in the marketing is using aggressive pricing, Marketing Manager recommended the company to set reasonable prices for the new sports series and at the same time, provide functional clothing to meet consumer demand.

Managing Director said, "in spite of low-cost strategy, we also have to highlight our product distinctiveness. We should launch designer sports series by cooperating with international or local well-known fashion designers so as to absorb trendy sportsmen. Also, we should set up a new designing team for the new sportswear series."

- (a) Explain two importance of marketing as a business function from the example of MOTSIDA in introducing sportswear. (4 marks)
- (b) Apart from place strategy and with the remaining three elements of the marketing mix, explain the strategies that MOTSIDA can use to enhance the competitiveness of its sportswear. Illustrate each with an example. (6 marks)
- (c) With respect to recruiting designers for the new designer team, explain one advantage and one disadvantage by using internal candidates. (4 marks)
- (d) Explain why gross profit ratio is an effective indicator in measuring the profitability of a fashion business. (4 marks)

(Total: 18 marks)

7. Prestige International is a top international credit card company in the industry.

Faced with fierce competition in the industry, Prestige introduces the Black Card of which the cardholder is entitled to have a dedicated customer relation manager to take care of his/ her consumption needs. The card is marketed to the affluent.

The Chief Executive Officer of Prestige said at the meeting, "over half of the company's income comes from charges to the merchants. Merchants pay us these fees after cardholders settle transactions with their credit cards. The company hopes that there can be a 20% growth of the relevant income in the coming year. The introduction of the Black Card aims to increase the amount of consumption of high-end customers through qualified service of our customer relation managers."

"Black Card service should be different from that of the similar cards in the market. In order to attract more potential customers to become our members, I recommend the Black Card customer relation managers access to various luxury brands to obtain more membership privileges," suggested the Marketing Manager.

The CEO agreed and added, "since the Black Card is a status symbol, it should only be issued to people with certain assets and status. In order to highlight its dignity, we'll charge the customers a high annual fee too."

The quality of service provided by customer relation managers is the most essential factor that devotes to the success of the Black Card. Human resources managers are prudential about recruiting the relevant staff. He said, "customer relation managers are required to keep close contact with the high-end customers to understand their actual needs. Therefore, good communication skills and interpersonal networks are necessary."

"I believe we should offer a high remuneration package to new recruits so as to attract talent," responded the CEO.

- (a) Explain three criteria that have been used by Prestige black card in identifying its competitive advantage. Illustrate each with an example. (6 marks)
  - (b) As a card issuer, Prestige is also troubled by default problem of card members. Is it a pure risk or a speculative risk? Explain. (4 marks)
  - (c) Explain two selection methods that the human resources manager of Prestige can use to find the right customer relation manager. (4 marks)
  - (d) In addition to basic salary, suggest one monetary reward that Prestige can offer in order to motivate the customer relation manager to work hard. Explain. (4 marks)
- (Total: 18 marks)

**SECTION C (20 marks)**

Answer **ONE** question in this section.

8. The Mandatory Window Inspection Scheme (MWIS) was commenced on 30 June 2012. A window engineering firm has many enquiries but failed to receive all the orders.
- (a) Describe and explain the factors affecting the window engineering firm to hire sufficient window inspecting staff through the supply of external candidates. (10 marks)
- (b) Explain what insurance the window engineering firm can buy in order to transfer losses arising from the provision of services. (10 marks)
- (Total: 20 marks)
9. The retail shops of a telecommunications company often has a long queue waiting for service. The company introduces mobile application providing instant customer services. The application will answer to customers' enquiry and help customers to make appointment to buy phone or join plan at shop. The service has made a promise to respond within one minute.
- (a) With reference to the characteristics of services, explain how the telecommunications company can solve the long queue problem of the retail shops by introducing the instant customer services. (10marks)
- (b) The instant customer service application has been launched for one month. Explain the factors affecting the customer loyalty towards the instant customer services of the telecommunications company. (10 marks)
- (Total: 20marks)

**END OF PAPER**





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

**SECTION A**

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

1.  
**Answer: A**  
 Mr. Li should adopt laissez-faire leadership style. It is because economists are experienced and the research work requires a high degree of freedom.

2.  
**Answer: A**  
 Both inventory (current assets) and trade payables (current liabilities) will decrease.

3.  
**Answer: A**  
 (1) is incorrect. With a clear organisational structure, the company can arrange and distribute work easily. However, it cannot improve the performance of the company directly.  
 (2) is correct. Management is the progress of fulfilling objectives through resources. Effective management can reduce the resources utilised and raise efficiency.  
 (3) is incorrect. Management concepts and principles apply to both profit-making entities and non-profit making entities.

4.  
**Answer: C**  
 Effective rate of return of Plan 1:  

$$= (1 + \frac{8\%}{12})^{12} - 1 = 8.3\%$$
 Effective rate of return of Plan 2:  

$$= (1 + \frac{9\%}{4})^4 - 1 = 9.3\%$$
 Effective rate of return of Plan 3 = 10%

5.  
**Answer: A**  
 (1) is correct. Division of work breaks down the entire work into a number of small tasks for individuals. It is easier for them to handle and thus increase their productivity.  
 (2) is correct. According to the unity of command, one employee should directly report to one manager only to avoid conflicting commands.  
 (3) is incorrect. Even the supervisor has given authority to a subordinate, he/she still has to bear the responsibility of the subordinate's decision as well as job outcomes.

6.  
**Answer: C**  
 Gross Profit Ratio = Sales - (Cost of Goods Sold) / Sales  

$$w: \frac{\$[254\ 000 - (189\ 000 - 60\ 000)]}{254\ 000} = 49.21\%$$

7.  
**Answer: B**  
 Net Profit Ratio = (Gross Profit + Revenue - Expenses) / Sales  

$$w: \frac{\$[254\ 000 - (189\ 000 - 60\ 000)] - \$254\ 000 \times 35\%}{254\ 000} = \$36\ 100$$

8.  
**Answer: D**  
 A is incorrect. If the applicant has a more stable career, financial institution will perceive him / her as having better earning power and ability of repayment, i.e. a better credit worthiness.  
 B is incorrect. If the applicant repays bills on time and with a good record of payment, his / her credit score and credit rating will be higher.  
 C is incorrect. If the applicant has a larger amount of assets and a smaller amount of

liabilities, his / her credit score and credit rating will be higher.  
 D is correct. Assets of applicant's parents will not affect the credit worthiness of the applicant.

9.  
**Answer: A**  
 The labour cost in developed countries is relatively high. Under globalisation, many low-skilled jobs migrate to lower-cost regions. Therefore, the employment of low-skilled workers worsens.

10.  
**Answer: C**  
 (1) is incorrect. Most goods in Hong Kong are tariff-free, but not all of them.  
 (2) is correct. The four economic pillars include financial services, tourism, trading and logistics, and professional and producer services.  
 (3) is correct. Hong Kong is a member of Asia-Pacific Economic Cooperation (APEC).

11.  
**Answer: A**  
 According to the accrual concept, expenses recorded in the income statement should be the amount actually incurred, i.e.  $\$8\ 000 \times 12 = \$96\ 000$ .

12.  
**Answer: C**  
 A is incorrect. Without a legal entity, a partnership has the disadvantage of lack of continuity. A partnership will end when any of the partners dies or withdraws.  
 B is incorrect. In a general partnership, every partner has to bear unlimited liability.  
 C is correct. In 2014/2015, the profits tax rate for a partnership was 15% which is less than that

of 16.5% for limited companies.

D is incorrect. When transferring the ownership, a partner has to obtain the consent of other partners.

13.

**Answer: B**

(1) is incorrect. The dividend rate is specified on preference shares. It is not necessarily higher than that of ordinary shares.

(2) is incorrect. Preference shareholders do not have voting rights in the general meeting while ordinary shareholders do.

(3) is correct. Preference shareholders receive dividends before ordinary shareholders.

(4) is correct. When the company is liquidated, the order to get back investment is: bondholders, preference shareholders and then ordinary shareholders.

14.

**Answer: D**

Returns inwards are goods returned from customers. It should be deducted from sales. Discounts allowed are cash discounts given to trade debtors, it will decrease the balance of trade receivables.

15.

**Answer: A**

The major financial planning at pre-retirement is to direct more financial resources to retirement planning and medical coverage. Estate planning is the major financial need of retirees.

16.

**Answer: B**

A is incorrect. Capital investment appraisal involves the planning and managing of a business's long term investments.

B is correct. Working capital management refers to the management of short term assets and liabilities, so as to ensure the business has enough capital for its operations. The setting of a credit policy with a manageable level of credit risks is involved.

C is incorrect. Financial planning and budgeting is used to project the business's sales income and expenses for a given period of time. A financial manager has to compare the actual income and expenses with the budget regularly. The question does not mention such information.

D is incorrect. Debt financing means the business raises capital by borrowing. The question does not mention that the business has to raise capital.

17.

**Answer: B**

The objective of quality management is to improve the quality of products and services, to meet the needs and expectations of customers. It is a job of operations management, but not marketing management.

18.

**Answer: D**

(1) is correct. Accepting treats from

subordinates and using this as a reason for promotion is considered as a conflict of interest as personal gains are ahead of the business's interest. It is business unethical.

(2) is correct. The use of Internet for personal use during office hours is considered as the misuse of company resources. It is business unethical.

(3) is correct. Misleading consumers by omitting important information is considered as business unethical.

19.

**Answer: D**

Correct double entries:

	Dr	Cr
(1)	Purchases	Accounts receivable
(2)	Purchases	Trade payable
(3)	Purchases	Bank

20.

**Answer: C**

A is incorrect. As the government input more resources on the technology industry, it is expected that it will have a positive prospect. This may increase in the company's stock price.

B is incorrect. Appointing a famous management expert as the Chief Executive Officer can increase the investors' confidence. This may lead to an increase in the company's stock price.

C is correct. A higher interest rate increases the cost of investment and investors will decrease the amount of their investment. Therefore, it will generally lead to a decrease the share prices.

D is incorrect. Distributing more dividends can attract more investors to purchase its shares. As a result, its share price will rise.

21.

**Answer: C**

(1) and (2) are correct. SMEs usually lack of management ability and experience which may lead to net loss. Also, SMEs have limited sources of capital and cannot obtain banks loans easily.

(3) is incorrect. The question does not mention the low flexibility of SMEs.

(4) is correct. The lack of future prospects and insecurity of SMEs may lead to high labour turnover rates.

22.

**Answer: C**

The characteristics of an entrepreneur include innovative, has a strong desire or independence. Also, he/she is willing to take risks. However, it is not necessary to have excellent academic result.

23

**Answer: C**

A, B and D are incorrect. They are in debit balance.

C is correct. Capital is the resources input by the owner to the business. It must be in credit balance.

24.

**Answer: C**

According to historical cost concept, all assets should be recorded at acquisition cost, i.e. \$23 000 – 1 700 = \$21 300.

25.

**Answer: B**

(1) is correct. With the help of a local partner, a foreign company can enter a new market more easily with joint venture. It is also easier to access to resources of raw materials and labour in the host country.

(2) is incorrect. Partners may not share the profit equally. Profit sharing will be difficult since different partners contribute different resources to the joint venture. Therefore, it is necessary to determine a fair profit sharing ratio beforehand.

(3) is correct. Hong Kong government formed a joint venture with Disneyland to run the Hong Kong Disneyland.

26.

**Answer: C**

(1) is correct. Quality problem of products is an internal factor affecting the stock price.

(2) is incorrect. Government policy is an external factor affecting the stock price.

(3) is correct. A merger or an acquisition is a corporate decision. It is an internal factor affecting the stock price.

27.

**Answer: B**

The correct pairing is as below:

	Main Board	GEM
Minimum market capitalisation	HK\$200 million	HK\$100 million
Investment return	As investors need to face a lower risk, they usually require a relatively lower return	As investors need to face a higher risk, they usually require a relatively high expected return
Number of companies	1,624 (as at Nov 2015)	218 (as at Nov 2015)
Investment risk	The requirement to be listed on the Main Board are higher, the financial status of the companies on the Main Board are more stable, the investment risk is lower	There is no profit requirement for company to be listed on GEM, it is difficult to predict their performance, the investment risk is higher

28.

**Answer: C**

(1) and (4) are correct. Company has to repay its debt on time. If the company is not socially responsible to its creditors, creditors may increase the interest, or even stop lending out loans to the company.

(2) is incorrect. If the company is not socially responsible to its creditors only, consumers may



SECTION B

1.(a) Functions:

- Using operation facilities efficiently to produce products that meet customers' needs in time
- Preparing capacity planning to forecast demand for products
- Engaging in location planning to decide manufacturing facility
- Designing layout of equipment and facilities of the store
- Material management
- Quality management

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

(b) Characteristics:

- Small staff size
- Operated and managed by the owner
- Owned by single individuals, i.e. ownership is concentrated on one person or a few individuals

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

(c) Importance:

- Providing job opportunities
- Introducing new products
- Fostering competition

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

2.(a) Future value of Proposal 1

$$= \$70\,000 \times \left(1 + \frac{4\%}{2}\right)^2$$

$$= \$78\,831 \text{ (2 marks)}$$

Future value of Proposal 2

$$= \$[(32\,000 \times 1.1 + 32\,000) \times 1.1]$$

$$= \$81\,312 \text{ (3 marks)}$$

(b) Nominal rate of return is the stated interest rate. Effective rate of return is the rate of return that includes the interest reinvested during a year (2 marks).

3. **Mary**

2016		2016		2016	
S		S		S	
1 May	Sales	20 000	May 9	Returns inwards	800
			13	Bank	5 000
				Discounts allowed	400
			31	Balance c/f	13 800
		<u>20 000</u>			<u>20 000</u>

(5)

4.(a)(i) **Dr** Capital **Cr** Drawings (1 mark)

(ii) Carriage inwards refers to the carriage cost of purchasing goods from supplier(1 mark).It should be added to cost of goods sold(1 mark). Carriage outwards refers to the carriage cost of sales to customers (1 mark). It should be treated as an expense (1 mark).

(b) Financial management (1 mark)

(c) The human resources department will shortlist the suitable applicants and then conduct an interview and /or written test to ensure their qualification fulfill the requirement of the job (2 marks). Through ongoing training employees or requiring them to have certain qualification can ensure their qualification fulfill their job (2 marks).

5.(a)(i) Accounting equation (1 mark)

(ii) Inventory (1 mark)

(iii) Double entry accounting (1 mark)

(b) Limitations:

A trial balance cannot detect the following errors:

- error of principle
- error of omission
- error of commission
- error of posting
- error of complete reversal of entries
- error of compensation

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

(c)(i) Division of work (1 mark)

(ii) If Tommy has a leave or resigns, the firm may not have another employee to replace his position immediately (2 marks).

(iii) Advantages:

- better communication between manager and subordinates through regular meetings
- motivate subordinates towards the goal as they are involved in goal setting
- enhanced self-monitoring of subordinates as they are involved in goal setting

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

END OF PAPER 1

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

1.  
Steps:

- Organising: Create an organisational structure for the marketing department. Their scope of work can be divided in terms of functional, geographical and product organisation, in order to coordinate the marketing activities.
- Implementing: Transform the marketing strategies into actual marketing activities.
- Controlling: Ensure the marketing activities are executed according to plan, make corrective actions when necessary.

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

2.  
Ratios and implications:

- Inventory turnover: It measures how efficient an enterprise uses its inventory. The higher the inventory turnover, the rate of inventory sold will be faster, meaning a higher management efficiency, and vice versa.
- Trade receivables turnover: It measures the average time needed to collect account receivables. The higher the ratio, the quicker the enterprise in collecting its account receivables, meaning a higher management efficiency, and vice versa.
- Trade payables turnover: It measures the average time needed to settle account payables. The higher the ratio, the faster the enterprise to settle its payables, meaning a higher management efficiency, and vice versa.
- Total assets turnover: It measures the efficiency of an enterprise to use its assets to generate sales. The higher the asset turnover, the more efficient use of assets to generate sales, meaning a higher management efficiency, and vice versa.

(2 marks for each relevant ratio and its implication, max. 4 marks)

3.  
Advantages:

- Enhancing its productivity: It allows its employees to be better equipped with the latest skills and knowledge, improving their individual productivity, so as the productivity of the entire company.
- Improving the quality of service: Training can improve the quality of service of the employees, the corporate image can be enhanced.
- Satisfying future needs of the company: Training can improve the quality of human resources, in order to cope with future development needs of the business.
- Ensuring the safety of employees: Employees are equipped with proper working skills after training, and it reduces the chance of industrial accidents. It can ensure a stable supply of human resources.

(2 marks for each relevant advantage, max. 4

marks)

4.  
Operating cycle:

- Description: The period needed for an enterprise from purchasing inventory on credit (account payables), to receiving cash from selling the final product (1 mark).
- Meaning: Operating cycle means how long an enterprise can recover cash from making credit purchase, the shorter the period, the better operational efficiency (2 marks).

Cash conversion cycle:

- Description: The period needed for an enterprise from making cash payment to purchase inventory (cash outflow), to receiving cash from selling the final product (1 mark)
- Meaning: Cash conversion cycle can showcase the account payables and account receivables policies of the enterprise. The longer of the former and shorter of the latter means a better operational efficiency. It is because the enterprise can enjoy a longer credit period from suppliers; but being able to receive account receivables from customers shortly (2 marks).

5.  
Reasons:

- New recruits can get to know colleagues of various departments through job rotation, establishing their personal network, so as to develop their career.
- New recruits can learn different skills, so that their work becomes challenging.
- New recruits can understand the overall operation of the company, promoting their personal growth.

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

**SECTION B**

6. (a)  
Importance of business function:

- Identify the needs of customers and help to satisfy them: Identify the trend of jogging and hiking, and then provide sportswear with functional value.
- Develop strategies to compete with competitors: Monitor the product and pricing strategies of the competitor, in order to develop a low-price strategy to seize the market.
- Establish a long-term relationship with partnership: Establish long-term business partnership with well-known designers, in order to launch trendy sportswear.
- Monitor and respond to the changing market needs: Pay attention to the changes in sports trend and act accordingly.

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

(b)  
Product strategy and example:

- Labelling: MOTSIDA can clearly mark the

composition and function of the fabric on selective products, informing its customers the functionality of the sportswear.

- Upward stretching of the product line: Introduce designer collections, attracting higher-end consumers.

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

Pricing strategy and example:

- Low-price strategy: Take low-price strategy to attract the mass public to try the product, seizing the market share.

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

Promotional strategy and example:

- Public Relations: Sponsor large-scale sports events, establishing a positive brand image, as well as raising public awareness on its new line of sportswear.
- Sales promotion: Offer sports accessories as a short-term incentive, to attract consumers to buy its sportswear line.
- Advertising: Employ spokesperson and launch advertising on various media platforms, enhancing its reputation.

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

(c)  
Advantage:

- It is a quicker and less costly recruitment method.
- It is easier for the designer to adapt to the culture and operations of the company.

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

Disadvantage:

- Innovative is a key in fashion design, using internal candidate may not bring new insights to the company.

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

(d)  
Reason:

- It can measure the degree of market acceptance towards its pricing: gross profit = sales - cost of goods sold. Clothing is a physical commodity, adopting a high pricing implies a high gross profit ratio, and vice versa. Therefore, gross profit ratio can reflect the consumer's acceptance towards the pricing as well as the profitability of the company.
- It can reflect the level of the cost of goods sold: Since clothing is a physical commodity, it is easy to calculate the cost of goods sold, namely the purchase cost such as cost of fabric and transportation cost. The cost of goods sold reflects the bargaining power of the company towards its supplier, i.e. the profitability of the company.

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

7. (a)  
Criteria and examples:

- Distinctive: The card company introduces



exclusive customer relation manager, offering personalised service to black card members. It is an advantage against its competitors.

- Important: Since its target customers often have to make high-end consumption due to work or personal preferences, personalised service of black card is very important to them.
- Superior: It is hard for black card members to obtain similar services from other institutions.
- Communicable: Prestige can advertise in the media and convey their competitive advantage to the target customers.
- Affordable: Although the annual fee of the black card is far much higher than other credit cards, the target customer can still afford it.
- Profitable: The black card can bring considerable annual fee income to the card company. In addition, by offering exclusive services, customers are attracted to use black card to make transactions and the company can receive commission from merchants.

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

(b)

- Pure risk (2 marks)

Reason:

- If the card members of Prestige default their card payment, the card company will suffer from loss only and no possibility of gain. Therefore, it is a pure risk (2 marks).

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

(c)

Method:

- Screening written applications: Based on the information such as educational background, working experience and etc, provided in the application and resume, the company can assess whether the applicants have consultation experience to high-end customers and on high-end consumer market.
- Work sampling technique: Pre-set a number of job-related situations, enabling the applicants to perform their communication skills in dealing with customers. The interviewer can observe the interviewees' ability in handling customers as well as their communication skills.
- Stress interview: The interviewer will ask a series of difficult questions, creating an anxious atmosphere, so as to test the emotional stability, maturity and stress tolerance level of the applicants.
- Test: As the customer relation manager may require to serve members of different nationalities, a test can be used to assess their language skills.

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

(d)

Reward methods and explanation:

- Commission: Offer commission to customer relation manager, which is calculated by a certain percentage of the total transaction amount of the black card members. As the return is proportional to the customers'

consumption, the customer relation manager will have great incentive to look for more exclusive privileges to customers, attracting them to make consumption.

- Bonus: The managers with excellent performance can receive generous bonuses at year end, the customer relation manager will have great incentive to look for more exclusive privileges to customers, attracting them to make consumption.

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

## SECTION C

8. (a)

Factors:

- Skill shortage: Window inspection must be carried out by a qualified and licensed person. If there is not enough supply of labour who are holding the related skills and licences, it is difficult for the firm to recruit enough staff.
- Education and training: If the government and educational institutions are offering more related courses, it will increase the supply of the related labour. The firm can solve the labour shortage in the long run. However, training and licensing take times, the problem of labour shortage may not be solved in the short run.
- The remuneration package offered by the competitor: When many large competitors can be found in the same district, and they offer more attractive remuneration packages, then it is difficult for the firm to compete staff with the competitor.
- The overall unemployment rate: If the overall unemployment rate in Hong Kong is relatively low, labour may be less willing to join the industry, it is difficult for the firm to recruit enough staff.
- The average age of the workforce: If the inspecting staff has a high average age or are close to the retirement age, this will lead to a decrease of labour supply. It is difficult for the firm to recruit enough staff.

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

(b)

Insurance:

- Public liability insurance: If a third party (such as the street passers or residents from the lower storey) get injured or suffered from property damage due to the work of the firm, a public liability insurance can protect the firm against the liability. The insurance company will pay for the compensation to the third party.
- Employees' compensation insurance: It can protect the firm against the liabilities of medical expenses and financial compensation arising from its employees' occupational disease, injuries or even death during their work.
- Fidelity guarantee insurance: It can provide compensation to the firm if it suffers losses due to the dishonest acts of employees such as fraud or theft during their work.

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

9.(a)

Characteristics of service and reasons:

- Intangibility: Customers fail to know the exact outcome of services as they are intangible in nature. Customers who are waiting in line at a store are difficult to predict their waiting time, this will make them feel anxious and impatient. The instant customer service is committed to response to customers within one minute. This service can gain customer satisfaction, thereby solving the problem of the retail shop.
- Inseparability: The production and consumption of services occur at the same time, the staff at the store cannot produce the service in advance. The introduction of instant customer service can be regarded as increasing the service providers. It also has a diversion effect shifting the store customers to online services, solving the long queue problem.
- Variability: The quality of services varies among service providers and the point of services. The quality of service of a customer service staff at the store may be affected by the store environment and the long queue. On the contrary, the staff who work at the back office are relatively less influenced by the surrounding environment, the quality of service will be more stable.
- Perishability: Service cannot be "stock", leading to the mismatch of its supply and demand during peak and non-peak hours. Introducing the online customer service, customers can make an appointment of buying phone and joining the plan beforehand, balancing the supply and demand.

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

(b)

Factors:

- Customer satisfaction: The quality of service by the customer service staff and the commitment of time waiting will affect customer satisfaction.
- Effective communication with customers: Instead of face-to-face communication, whether the company can make use of mobile application to handle customer enquiry and offer appointment service effectively will affect the enhancement of the customer loyalty.
- Handling of customer complaints: If the instant customer service got complaints from the customer, a prompt and immediate response can restore the customers' confidence and loyalty to the services, and vice versa.

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

END OF PAPER





