

BAFSSCHOOL OF THE HONG KONG ECONOMIC TIMES
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION
MOCK PAPER 2017 (B4a)

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES

PAPER 1

Time allowed: 1 hour 15 minutes
This paper must be answered in English

GENERAL INSTRUCTIONS

1. This paper consists of **TWO** sections, A and B. Section A carries 60 marks and Section B carries 30 marks.
2. Section A consists of multiple-choice questions. Section B contains short questions.
3. Answer **ALL** questions in Section A. There are two parts in Section B: Answer **ALL** questions in Part 1 and **ONE** of the two questions in Part 2.

SECTION A (MULTIPLE-CHOICE QUESTIONS)

INSTRUCTIONS

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

SECTION A (60 marks)

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

1. Which of the following show the importance of accounting?
- (1) summarize and report the company performance
 - (2) facilitate the internal communication of a company
 - (3) avoid business competition
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
2. In the books of Fantasy Company, Gilbert's account shows a debit balance of \$4000. It means that
- A. Fantasy Company owed Gilbert \$4000.
B. Gilbert owed Fantasy Company \$4000.
C. Fantasy Company has paid Gilbert \$4000.
D. Gilbert has paid Fantasy Company \$4000.
3. Which of the followings on characteristics of the Hong Kong economy is CORRECT?
- A. Hong Kong is an internally-oriented economy.
B. Most of the enterprises in Hong Kong are small and medium enterprises.
C. Most of the labour force engaged in primary production.
D. Hong Kong is a communist economy.
4. Based on the following information, calculate the amount of sales.

	\$
Opening inventory	67 000
Closing inventory	102 000
Purchases	250 000
Selling and administrative expenses	90 000
Carriage inwards	64 000
Operating expenses	160 000
Net profit	80 000

- A. \$279 000
B. \$330 000
C. \$609 000
D. \$660 000

5. The definition of management includes completing tasks effectively. Which of the followings has/have direct relationship with effectiveness?

- (1) Pursue of an appropriate goal.
- (2) Fully utilise of the resources of the enterprise.
- (3) Finish tasks with the least cost.

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

6. Credit card belongs to _____ because _____ .

- A. revolving credit it does not involve a fixed repayment schedule
- B. non-revolving credit the interest for outstanding balance is high
- C. mortgage loan borrowers will have to provide collaterals
- D. private loan.....it involve a fixed repayment amount.

7. Which of the following double entries are correct?

	Transaction	Account to be debited	Account to be credited
A.	Paid rent in cash	Cash	Rent
B.	Paid overdraft interest via bank account	Interest	Bank overdraft
C.	Received a cash refund due to the electricity being overcharged	Cash refund	Electricity
D.	Introduced inventory by the owner into the business	Inventory	Capital

8. Which of the following statements about a trial balance is correct?

- (1) A trial balance cannot directly shows the profitability and the liquidity of a company.
- (2) A trial balance shows all of the account balances for a specified period.
- (3) Even if the trial balance is agreed, an error may still exist in the accounting records.

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

9. In a statement of financial position, (1) should be classified as a current asset, while (2) should be classified as a current liability.

	<u>(1)</u>	<u>(2)</u>
A.	rental deposit	bank overdraft
B.	bank overdraft	bank loan
C.	inventory loss	purchases
D.	equipment	inventory

10. Which of the following MPF scheme members can withdraw their money as a lump sum?

- A. People who are aged 60 or above
- B. People who will temporary leave Hong Kong
- C. People who are with total incapacity
- D. None of the above

11. A Korean fashion boutique plans to start business in Hong Kong. It is planning on methods of financing and site of branches. Which type of management does the above planning involves?

- (1) Operations management
- (2) Marketing management
- (3) Financial management
- (4) Human Resources Management

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

12. An owner bought a piece of furniture at \$5 000 for business use. On the statement of financial position, the market value of this furniture was \$6 000. According to (1), this piece of furniture should be recorded at (2).

	<u>(1)</u>	<u>(2)</u>
A.	Accrual concept	\$5 000
B.	Accrual concept	\$6 000
C.	Historical cost concept	\$5 000
D.	Historical cost concept	\$6 000

13. The following figures were extracted from the books of a company as at 31 December 2016:

Item	\$
Sales	380 000
Returns outwards	6 000
Purchases	240 000
Carriage outwards	25 000
Opening inventory	12 000
Closing inventory	23 000
Operating expenses	90 000

Which of the following statements relates to the year 2016 is correct?

- A. The gross profit ratio is 17.63% (to 2 decimal places).
B. The return on capital employed is 17.63% (to 2 decimal places).
C. The net profit ratio is high.
D. The net profit is \$67 000.
14. Which of the following statement about globalization is correct?
- (1) The firms may face more intense competition
(2) The mobility of labour may decrease
(3) It may be easier for firms to reduce cost
- A. (1) and (2) only
B. (1) and (3) only
C. (2) and (3) only
D. (1), (2) and (3)
15. Compared with a sole proprietorship, _____.
- (1) a partnership has more source of capital
(2) the risk of an owner of a partnership is higher
(3) the owner of a partnership can enjoy more profits
- A. (1) only
B. (3) only
C. (2) and (3) only
D. (1), (2) and (3)

16. Which of the following apply the going concern assumption?
- A. A company recorded all the assets at market value as it will be closed off one week after the date of financial position.
 - B. A company recorded all the assets at historical cost even if it will be closed off one week after the date of financial position.
 - C. A company recorded the motor van introduced by the owner into the business at market value.
 - D. The motor fuel of the owner's car for business use is charged as a business expense.
17. Which of the followings is not a possible reason for a public limited company to go privatisation?
- A. To keep its business information confidential.
 - B. Avoid losing firm ownership.
 - C. Enjoy lower profits tax rate.
 - D. All of the above
18. Which of the followings is a performance of fulfilling social responsibility to the community?
- A. Paying profits tax on time.
 - B. Repaying principals and interests on time.
 - C. Reducing production cost
 - D. Installing environmentally friendly equipments.
19. Which of the following is not the function of World Trade Organisation?
- A. Maintain some of the trade barriers
 - B. Co-operate with other international organisations
 - C. Hold forums for trade negotiations
 - D. To eliminate competition among countries
20. Which of the following statements about an entrepreneur is CORRECT?
- A. An entrepreneur does not need technical skills.
 - B. An entrepreneur should have high education level.
 - C. An entrepreneur should have a large amount of capital.
 - D. An entrepreneur should face uncertainties in business operation.

21. Mr. Wong is the Research team head of a food manufacturing. He sets a tight schedule for his subordinates daily. The employees of the department are experienced and corporative nutritionist with different opinion on decision making. Ever since the leading of Mr. Wong, the turnover rate of the department raised apparently. To retain the staff, his leadership style should change from _____ to _____ .
- A. participative leadership free-rein leadership
 - B. autocratic leadership participative leadership
 - C. free-rein leadership autocratic leadership
 - D. autocratic leadership free-rein leadership
22. Which of the followings is not the reason for a high failure rate of small and medium enterprises (SMEs) in the first year of operation?
- A. Limited capital.
 - B. No autonomy in decision-making.
 - C. Small market share.
 - D. Limited professional knowledge
23. “In a toy factory, different staff is responsible for different production stages”.
- This is conformed to the principle of _____, which may lead to the problem of _____ .
- A. Division of labour difficulty of changing tasks among workers
 - B. Division of labour increasing mistakes
 - C. Delegation lack of abilities of workers
 - D. Delegation increasing risk
24. On 31 March 2017, an owner has a capital of \$812 000. The non-current assets and the current liabilities amounted to \$700 000 and \$405 000 respectively. Also, a three-year bank loan of \$60 000 was raised.
- What is the amount of current assets on 31 March 2017?
- A. \$235 000
 - B. \$577 000
 - C. \$1 165 000
 - D. \$1 217 000

25. Which of the followings are the reasons for entrepreneurship to promote economic growth?
- (1) The introduction of new products and services
 - (2) A creation of employment opportunities.
 - (3) A promotion of growth among enterprises.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
26. Which of the followings are advantages of maintaining a good personal credit record?
- (1) Maintain a good personal resume
 - (2) Lower interest rate when obtaining loan.
 - (3) Easier to be approved when obtaining loan.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)
27. Which of the followings is not the possible consequence of enterprise neglecting planning?
- A. Fail to perform other functions of management.
 - B. Fail to identify crisis.
 - C. To develop action plan.
 - D. Fail to identify possible business opportunity.
28. Bank A and bank B both offer annual interest rate of 5% for time deposit with a maturity period of one year. Bank A pays interest monthly, while bank B pays quarterly. Which of the followings is/are CORRECT?
- (1) The nominal rate of return for bank A and bank B are the same for the one-year time deposit.
 - (2) The effective rate of return of the one-year time deposit of bank B is higher than bank A.
 - (3) The effective rate of return of the one-year time deposit of bank A is over 5%.
- A. (1) and (2) only
 - B. (1) and (3) only
 - C. (2) and (3) only
 - D. (1), (2) and (3)

29. Which of the following descriptions about Growth Enterprise Market (GEM) is correct?
- A. GEM is a platform for company which has potential growth to raise capital
 - B. It is less risky to invest in Growth Enterprise Market listed companies rather than in Main Board listed companies.
 - C. The return from GEM will be lower than that of Main Board
 - D. The profit requirement of GEM companies is HK\$20 million in the most recent year
30. To investors, which of the followings could be a reason of investing in ordinary shares rather than preference shares?
- A. Earning more stable dividend return.
 - B. Having a priority in receiving capital when the firm liquidates
 - C. Lower investing risk
 - D. Having the voting rights in annual meeting.

END OF SECTION A

SECTION B (30 marks)

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

1. To start up a company, Mr. Chan contributes \$5 000 cash. Also, the company borrows \$2 000 from bank.
 - (a) Prepare the double accounting entry to record the above event with debit and credit columns respectively. (4 marks)
 - (b) State two functions of a trial balance. (2 marks)

2.
 - (a) Firm A plans to purchase a machinery which cost \$16 000. The computer is expected to be used for 3 years. This machinery can generate a cash flow of \$4 000 per year. At the ended of year 3, Firm A will sell it at \$6 000. Suppose that the cost of capital is 6%. Should Firm A purchase the machinery? (4 marks)
 - (b) Mr. Chan plans to join an investment plan. There are two plans.

Plan A: Annual interest rate 5%, compounded yearly
Plan B: Annual interest rate 4.5%, compound monthly

Which plan should he choose? (4 marks)

3. Ms Chan wants to open up a company with his friends. They want to pay a lower profit tax rate.
 - (a) Which form of business ownership should they operate? State two disadvantages of this form of ownership (3 marks)
 - (b) Her husband advised Ms Chan to be Franchisee. State three advantages of it. (3 marks)

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

Based on the following information, answer either Question 4 or 5.

Avon's business had the following financial information as at 31 December 2016:

	\$
Wages and salaries	110 200
Carriage inwards	3 000
Bank overdraft	40 000
Inventory, 1 January 2016	77 500
Sales	390 000
Purchases	90 000
Returns inwards	2 100
Property, plant and equipment	1 450 000
Carriage outwards	50 000
Capital, 1 January 2016	?

Inventory as at 31 December 2016 was valued at \$80 000.

Answer ONE question.

4. (a) Prepare a trial balance as at 31 December 2016 for Avon's business. (5 marks)
- (b) State the key business function responsible for preparing a set of financial statements. (1 mark)

Avon does not listen to his employee's suggestions. He always give instructions to the employees directly.

- (c) State and briefly explain the style of leadership adopted by Avon. (2 marks)
- (d) State one disadvantage for the style of leadership mentioned in (b). (2 marks)

(Total: 10 marks)

5. (a) Prepare an income statement for the year ended 31 December 2016 for Avon's business. (5 marks)

Avon's business decides to apply for a bank loan. Therefore, in order to have better operating results, Avon asked the accountant to adjust some accounting figures.

- (b) Explain two possible adverse impacts on his business. (4 marks)
- (c) Identify one stakeholder of Avon's business. (1 mark)

(Total: 10 marks)

END OF PAPER

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MOCK PAPER 2017 (B4a)

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 the section.

1. According to McGregor's Theory Y, what assumptions about employees are hold by the manager?
List two of them. (4 marks)
2. State two factors that an enterprise should adopt indirect distribution channel. (4 marks)
3. The marketing department organises staff tour to Macau every year. List three purposes of this arrangement. (6 marks)
4. List two objectives of performance management. (4 marks)
5. In 2016, Company A had current assets of \$1,500,000 and current liabilities of \$400,000. Its inventory is \$500,000.
 - (a) Calculate the current ratio and the quick ratio of Company A. (4 marks)
 - (b) The industry's average current ratio and quick ratio are 4:1 and 3:1. Comment on the performance of Company A. (2 marks)

SECTION (36 marks)

Answer **ALL** questions in the section.

6. V. Fast is a Hong Kong listed company which mainly manufactures cars in Mainland. Earlier this year, the company launched a series of smart cars, but its sales volume still remains low. Because of this, Mr. Hung, the Chief Executive Officer, convenes a meeting and says, "Smart car is a major project of the company, I hope it can soon bring us a profit."

Ms Wong, the Deputy General Manager, says, "As the sale volume is weaker than expected, I propose a substantial increase in the selling price of the smart cars for raising the sales volume of the project." Yet, Mr. Lee, the Marketing Director, disagrees with her, "In my opinion, a major increase in selling price is not suitable at this stage. The market is still unfamiliar to our smart cars, therefore, an increase in price may bring a negative impact. Also, since there are only few car factories investing on the research and development of smart cars, we can seize the opportunity to grow our market share."

Mr. Lee also suggests, "We should establish a division on promoting smart cars. We can choose an experienced workers from the Marketing Division of traditional vehicles to act as the head of the new division." However, Ms Cheung, the Human Resources Manager, responds, "Internal candidate may not be a suitable choice."

On the other hand, Mr. Ho, the Chief Financial Officer, expresses, "Due to the exceptionally high production cost of each smart car, a huge sum of capital is needed for further development of this project. So, we have to consider issuing new shares for financing purpose." Yet, Mr. Hung thinks "the General Shareholders' Meeting may not approve this proposal."

- (a) (i) Give three pieces of evidence from the case to support that V. Fast's smart car is at the introduction stage of the product life cycle. (3 marks)
- (ii) Which pricing strategy for new products is V. Fast adopting? Give two reasons to explain why this pricing strategy is suitable on the smart car. (3 marks)
- (b) (i) According to the sales volume variance of smart car, suggest two remedial actions. (4 marks)
- (ii) Apart from the sales volume variance, list two causes of an unfavourable sales variance. (2 marks)
- (c) Give two reasons to explain why internal candidates are not suitable to be promoted to the head of the division on promoting smart cars. (4 marks)
- (d) Why do the shareholders support debt financing, but not equity financing? Give one reason to explain. (2 marks)

(Total:18 marks)

7. John just became the Director of Miracle Publishing House. To understand the operation of the publishing house and explore future directions of it, he met the supervisors of each division.

Susan, the supervisor of the Editorial Division, said, "In the past five years, literary magazines have been our major publication. Compared to other magazines of the same genre, our circulation volume has always been in the top three, but the development scope of this market is very narrow, and therefore it's hard to maintain a growth in the sale volume." John suggested that they could publish magazines of other genres. "Many Hong Kong people like travelling, so we can publish travel magazines," he said.

However, Leo, the supervisor of Marketing Division opposed the suggestion and said, "It's obvious that the target customers of the new magazine are different from the original ones, so developing a new target will involve a huge cost." John replied, "We can promote our magazines via the internet, such as inviting famous bloggers to do some promotion for us."

At last, David, the supervisor of Financial Division expressed, "There is a different publishing requirement between literary magazine and travel magazine. An advanced printing machine will be needed if the travel magazine is to be introduced. Since the cost will be high, we may not recover the investment in short-term." John responded, "Still, it's worth for us to buy a new printing machine." Yet, David replied, "Our cash in hand will decrease greatly after the new printing machine is bought."

- (a) (i) Suppose that consumers are affected by the bloggers and buy the travel magazine. Which factor affecting consumer decisions is it? Explain. (3 marks)
- (ii) According to the e-marketing strategies, state two promotion channels for the travel magazine. (2 marks)
- (b) (i) In order to satisfy the needs of different target customer, Miracle Publishing House publishes the literary magazine and travel magazine every week. Give one advantage and one disadvantage of this strategy of selecting target markets. (4 marks)
- (ii) Miracle Publishing House publishes the literary magazine only. What strategy of selecting target market is it? Give one disadvantage of this strategy. (3 marks)
- (c) Give two non-financial factors to support Miracle Publishing House to purchase a new printing machine. (4 marks)
- (d) Suppose the cash holdings of Miracle Publishing House is insufficient. Give one negative impact which is caused by the above situation. (2 marks)

(Total: 18 marks)

SECTION C (20 marks)

Answer **ONE** question in the section.

1. A Japanese food supplier plan to expand sushi food.
 - (a) Describe the manpower planning process which should be used for the expansion. (8 marks)
 - (b) As the risk related to food safety increases, explain the consideration of choosing each type of risk management strategy. (12 marks)
(Total:20 marks)

2. Coconut Milk Company had originally provided coconut milk to the restaurant only . Last month, its products began to be sold in supermarkets.
 - (a) Compare the differences between the marketing mix strategies of the consumer and business markets. (12 marks)
 - (b) As the performance of the company improved, the management plans to increase the salaries of all employees or to distribute the bonuses to the marketing staff. Explain the advantages of these two measures. (8 marks)
(Total:20 marks)

END OF PAPER

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建議答案

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BUSINESS, ACCOUNTING AND FINANCIAL STUDIES SUGGESTED SOLUTION

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B3a / B4a Paper 1 Section A

1	A	6	A
2	B	7	D
3	B	8	B
4	C	9	A
5	A	10	C

11	B	16	A
12	C	17	C
13	D	18	D
14	B	19	D
15	A	20	D

21	B	26	D
22	B	27	C
23	A	28	B
24	B	29	A
25	D	30	D

1. Ans: A

(3) is incorrect. Business competition cannot be avoided.

2. Ans: B

It means Gilbert is an account receivable of Fantasy Company.

3. Ans: B

A is incorrect. Hong Kong is highly external-oriented. The economy conditions of other regions have a large impact on the economic development of Hong Kong. B is correct. There are a large number of small and medium enterprises in Hong Kong. C is incorrect. Most of the labour force engaged in the service sector, that is tertiary production. D is incorrect. Hong Kong is a capitalist economy. There is little government intervention and most of the resources are privately owned.

4. Ans: C

w:
Gross profit – Selling and administrative expenses
– Operating expenses = Net profit

∴ Gross profit

= Net profit + Selling and administrative expenses
+ Operating expenses
= \$80 000 + 90 000 + 160 000
= \$330 000

Sales – Cost of goods sold = Gross profit

Sales = Gross profit + (Opening inventory +
Purchases + Carriage inwards – Closing inventory)
∴ Sales = \$330 000 + (67 000 + 250 000 + 64 000
– 102 000) = \$609 000

5. Ans: A

(1) is correct. Effectiveness refers to the pursue of an appropriate goal.

(2) and (3) are incorrect. To fully utilise the resources of the enterprise is the definition of efficiency. To finish tasks with the least cost is the outcome of fully utilise resources of the enterprise. These two options do not have direct relationship with effectiveness.

6. Ans: A

A is correct and B is incorrect. Credit card belongs to revolving credit. It does not involve a fixed deadline or number of payments to repay the loan in full. C is incorrect. Credit card belongs to non-mortgage personal loans. Borrowers do not have to provide collaterals. D is incorrect. Credit card does not involve a fixed repayment amount.

7. Ans: D

Correct entries:

	Transaction	Account to be debited	Account to be credited
A	Paid rent in cash	Rent	Cash
B	Paid overdraft interest via bank account	Interest	Bank
C	Received a cash refund due to the electricity being overcharged	Cash	Electricity

8. Ans: B

(2) is incorrect. A trial balance shows all of the account balances at a specified date.

9. Ans: A

Bank overdraft is a current liability.
Bank loan is a non-current liability.
Inventory loss is an expense and it should not be shown on the statement of financial position.
Purchases should be shown in an income statement, instead of the statement of financial position.
Equipment is a non-current asset.
Inventory is a current asset.

10. Ans: C

A is incorrect. MPF scheme members who are aged 65 or above can withdraw their money as a lump sum. B is incorrect. MPF scheme members who will leave Hong Kong permanently can withdraw their money as a lump sum.

C is correct. MPF scheme members who are with total incapacity can withdraw their money as a lump sum.

11. Ans: B

(1) is correct. Site of branches involves operations management. An ideal site can reduce transportation cost and time, production process can then run smoothly.

(2) is incorrect. Marketing management refers to the determination of effective plans, so that sellers will sell the appropriate products or services to the buyers, based on the needs of the buyers. Such planning does not involve marketing management.
(3) is correct. Methods of financing involve financial management.

(4) is incorrect. Human Resources Management means talent management and arrange suitable persons to perform the role. The above planning does not involve Human Resources Management.

12. Ans: C

According to historical cost concept, all items should be recorded at acquisition cost.

13. Ans: D

w:

Gross profit = \$380 000 – (12 000 + 240 000 – 6 000 – 23 000) = \$157 000

Net profit = \$157 000 – 90 000 = \$67 000

Gross profit ratio = (157 000/380 000) × 100% = 41.32% (to 2 decimal places)

B is incorrect. There is no sufficient information to determine the return on capital employed.

C is incorrect. Without comparison, we cannot comment the accounting ratio is high or not.

14. Ans: B

(1) is correct. With globalisation, a firm does not only face local competition but also from adjacent regions as well as around the globe. (2) is incorrect. With globalisation, integration of the labour market is encouraged. Hence, labour force will flow to places with better opportunity. (3) is correct. With globalisation, the opportunity of outsourcing production procedure elsewhere increased, production cost can be reduced.

15. Ans: A

(1) is correct. The source of capital of a partnership comes from several partners, which is more than a sole proprietorship. (2) is incorrect. A partnership is co-owned by several partners, and risk is shared among them. The risk borne by individual partner is lower than a sole proprietor. (3) is incorrect. A sole proprietor can take up all of the profits, while partners need to share the profits in a partnership.

16. Ans: A

B is incorrect. It violates the going concern assumption.

C is incorrect. It does not relate to the going concern assumption. Beside, according to the historical cost concept, the motor van should be recorded at cost.

17. Ans: C

A is incorrect. A private limited company does not need to hand in business report and yearly accounts to Companies Registry, so it can keep its business information confidential, while a public limited company needs to.

B is incorrect. The shares of private limited companies are not freely transferable. Shareholders do not need to worry about being taken over by other parties or losing the power of control.

C is incorrect. The tax rates of private limited companies and public limited companies are the same.

18. Ans: D

A is incorrect. This is a performance of fulfilling social responsibility to the government.

B is incorrect. This is a performance of fulfilling social responsibility to the creditors.

C is incorrect. This is a performance of fulfilling social responsibility to the investors.

D is correct. Installing environmentally friendly equipments can avoid environmental pollution. This is a performance of fulfilling social responsibility to the community

19. Answer is D

A is incorrect. Maintaining some of the trade barriers is one of the functions of World Trade Organisation. The aims are to protect the interest of consumers, prevent the spread of disease or protect the environment.

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B is incorrect. Co-operating with other international organisations is one of the functions of World Trade Organisation.

C is incorrect. Holding forums for trade negotiations is one of the functions of World Trade Organisation.

D is correct. Eliminating competition among countries is not one of the objectives of World Trade Organisation.

20. Ans: D

A is incorrect. A successful entrepreneur should have good management skills, including the technical skills.

B is incorrect. Many successful entrepreneurs in Hong Kong, such as Li Ka-shing, do not have high education level.

C is incorrect. The amount of capital is not the criterion to classify entrepreneur. Hawker can also be an entrepreneur.

D is correct. Entrepreneur should bear risk and face uncertainties in business operation.

21. Ans: B

A and C are incorrect. Mr. Chan sets a tight schedule for his subordinates everyday. His leadership style is autocratic leadership.

D is incorrect. The employees of the research team have different opinion on decision making. The use of free-rein leadership is not appropriate. B is correct. The research work emphasizes on creative ideas. As the employees are corporative, the participative leadership is more suitable.

22. Ans: B

A is incorrect. The scale of SMEs is usually small. They cannot raise capital by issuing bonds and shares in the market. The capital is usually from the owner. With limited capital, SMEs may close down easily due to financial difficulties.

B is correct. The owners of SMEs are free to make decisions.

C is incorrect. The market share of SMEs is usually small. If the market situation turns bad, SMEs may face difficulties.

D is incorrect. The owners of SMEs usually hire few numbers of employees. The lack of professional knowledge to manage the business, such as financial management and marketing promotion, which may lead SMEs close down easily.

23. Ans: A

A is correct and B is incorrect. Under this situation, each employee is focusing on a specific task of the whole process, which conform the principle of division of labour. Since workers are focusing on only one specific stage, they are not familiar with other stages. If changing task with other workers is required, they may feel difficult. However, division of labour can make workers become more skillful in their specialised tasks so that they will make fewer mistakes.

24. Ans: B

w:

$$\text{Capital} = \text{Assets} - \text{Liabilities}$$

$$\text{Capital} = (\text{Non-current assets} + \text{Current assets}) - (\text{Non-current liabilities} + \text{Current liabilities})$$

$$812\,000 = (700\,000 + \text{Current assets}) - (60\,000 + 405\,000)$$

$$\therefore \text{Current assets} = \$577\,000$$

25. Ans: D

(1) is correct. An entrepreneur will produce innovative products to remain competitive and avoid elimination. While other entrepreneurs are in the pursuit of improvement, it can stimulate economic activities.

(2) is correct. The establishment of an enterprise will encourage the business of enterprises in other industries, which can create job opportunities and promote economic growth.

(3) is correct. An entrepreneur promotes the development of the enterprise as well as the industry. It can create job opportunities and promote economic growth.

26. Ans: D

(1) is correct. A good personal credit record can gain employers' trust. Employee can handle some sensitive financial duties.

(2) is correct. A good personal credit record reflects a good credit history and a lower risk in lending. Credit providers may approve loans with lower interest rate.

(3) is correct. A credit applicant with a credit report reflecting prompt payment and no excessive indebtedness will find it comparatively easy to obtain new credit.

27. Ans: C

C is correct. Developing action plan is a step of planning, but not the consequence of enterprise neglecting planning.

A is correct. Planning is the prerequisite of other functions of management. Without planning, there will be no objective and specific action plan. There will be no directions and guidelines for other functions of management. B and D are correct. For an enterprise without well planning, it cannot identify potential crisis and business opportunity, and fail to estimate and deploy accordingly. Thus, the enterprise cannot react promptly.

28. Ans: B

(1) is correct. The nominal rate of return for bank A and bank B for the one-year time deposit are both 5%. (2) is incorrect. The one-year time deposit of bank A is compounded more frequently than bank B. Therefore, its effective rate of return is higher.

(3) is correct. As bank A pays interest monthly and the deposit interest is compoundly calculated. Therefore, its effective rate of return is higher than the nominal rate of return (5%).

29. Ans: A

A is correct. GEM is a platform for companies which have good business idea and potential growth but do not meet the requirements of the Main Board to raise capital.

B and C are incorrect. It is more risky to invest in GEM listed companies rather than in Main Board listed companies, while the expected return from GEM will be higher. D is incorrect. There is no profit requirement for being listed on GEM.

30. Ans: D

B and C are incorrect. When the firm liquidates, preference shareholders have a priority over ordinary shareholders in receiving capital. Therefore, ordinary shareholders may not receive all their invested capital. They face higher investment risks.

A is incorrect. The dividends offered to ordinary shareholders depend on firm performance and development directions, a fixed dividend yield is not guaranteed. The dividend yield for preference

shareholders is fixed and guaranteed.

D is correct. Ordinary shareholders have voting rights in annual meeting. They can participate in important decision making of the company and the preference shareholders cannot.

Paper 1 Section B

1.(a)		
Debit (\$)	Credit (\$)	
Cash 5000		(1 mark)
	Capital 5000	(1 mark)
Bank 2000		(1 mark)
	Bank loan 2000	(1 mark)

(b)

- To detect errors (1 mark)
- Facilitate the preparation of financial statements (1 mark)

2.(a)

$$\text{NPV} = -\$16000 + \$4000/(1.06) + \$4000/(1.06)^2 + (\$4000 + \$6000)/(1.06)^3 = -\$270.2 \text{ (3 marks)}$$

Since $\text{NPV} < 0$, Firm A should not purchase it. (1 mark)

(b)

$$\text{ERR of plan A} = (1+5\%) - 1 = 5\% \text{ (1 mark)}$$

$$\text{ERR of plan B} = (1+4.5\%/12)^{12} - 1 = 4.6\% \text{ (2 marks)}$$

He should choose plan A. (1 mark)

3.(a)

Partnership (1 mark)

Disadvantages:

- Lack of continuity
 - Unlimited liability
 - Frozen investment
- (1 mark for each relevant disadvantage, max. 2 marks)

(b)

Advantages:

- Brand name recognition
 - Lower risk
 - Training and support
 - Access to big business management skills
- (1 mark for each relevant advantage, max. 3 marks)

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4.(a)

Avon			
Trial Balance as at 31 December 2016			
	Dr	Cr	
	\$	\$	
Wages and salaries	110 200		0.5
Carriage inwards	3 000		0.5
Bank overdraft		40 000	0.5
Inventory, 2016/1/1	77 500		0.5
Sales		390 000	0.5
Purchases	90 000		0.5
Returns inwards	2 100		0.5
Property, plant and equipment	1 450 000		0.5
Carriage outwards	50 000		0.5
Capital, 2016/1/1		1 352 800	0.5
	<u>1 782 800</u>	<u>1 782 800</u>	
			<u>5</u>

(b)
 Financial management (1 mark)

(c)
 As Avon give directions to the employees without listening to their suggestions, Avon retains the decision making on his own (1 mark). Therefore, he adopts autocratic leadership (1 mark).

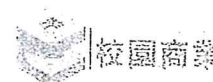
(d)
 Disadvantage:
 - It reduces staff morale.
 - Decisions may not be the best.
 - It increases managers' workload.
 (2 marks for any relevant disadvantage, max. 2 marks)

5.(a)

Avon			
Income Statement for the year ended 31 December 2016			
	\$	\$	
Sales		390 000	0.5
Less: Returns inwards		<u>2 100</u>	0.5
Net sales		387 900	
Less: Cost of goods sold			
Opening inventory	77 500		0.5
Purchases	90 000		0.5
Carriage inwards	<u>3 000</u>		0.5
	170 500		
Less: Closing inventory	<u>80 000</u>	<u>90 500</u>	0.5
Gross profit		297 400	0.5
Less: Expenses			
Wages and salaries	110 200		0.5
Carriage outwards	<u>50 000</u>	<u>160 200</u>	0.5
Net profit		<u>137 200</u>	0.5
			<u>5</u>

(b)
 Adverse impacts:
 - The company may be sued by the bank for providing distorted financial information.
 - The company reputation will be adversely affected.
 - Creditors may not approve further credit to the company.
 (2 marks for any relevant adverse impacts, max. 4 marks)

(c)
 Any one: potential investors / the government / creditors / customers / competitors
 (1 mark)



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B4a Paper 2B Section A

1.
 Assumptions:
- Employees are willing to work. It is a part of their lives
 - Employees will be self-motivated and self-control, in order to achieve the objective of firm
 - Employees accept and seek responsibilities
 - Employees can make decisions
- (2 marks for each relevant assumption, max. 4 marks)

2.
 Factors:
- The cost of adopting direct distribution channel is high
 - The enterprise lacks the professional knowledges and skills of distribution
 - The customers are very dispersed. Reaching them through other channel member is more efficient
- (2 marks for each relevant factor, max. 4 marks)

3.
 Purposes:
- Help the employees to develop social networks within the department, so as to understand the duties of the colleagues
 - Enhance the sense of belonging of the employees to the department. It can increase their incentive to work
 - Help the employees to fulfill their social needs, such as making more friends
- (2 marks for each relevant purpose, max. 6 marks)

4.
 Objectives:
- Managers can refer to the performance appraisal result, so as to utilise the human resources effectively
 - During the evaluation of employees' performance, managers are required to make the employees understand the objectives of firm, and thus, they will know their direction of work
 - The evaluation of performance helps the managers to gain better understand of the employees. The managers can develop the employees' capabilities by providing effective training
- (2 marks for each relevant objective, max. 4 marks)

5.
 Current ratio
 $= \$1,500,000 / \$400,000 : 1$
 $= 3.75:1$ (2 marks)

- Quick ratio
 $= (\$1,500,000 - \$500,000) / \$400,000 : 1$
 $= 2.5:1$ (2 marks)

Since the current ratio and quick ratio of Company A is higher than the average values of the industry, it can reflect that the liquidity of Company A is higher than the average performance of the industry (2 marks).

Section B

- 6.(a)(i)
 Evidences:
- The smart cars are still not profitable
 - There are only a few competitors in market
 - The market is still not familiar with smart cars
- (1 mark for each relevant evidence, max. 3 marks)

- (ii)
 Market penetration pricing (1 mark)

- Reasons:
- It can attract more consumers to try the smart cars
 - It can build a large market share before the other competitors enter the market
- (2 marks for each relevant reason, max. 2 marks)

- (b)(i)
 Remedial actions:
- Brand recognition: To held a conference on the function of smart cars
 - Enhance promotion: To encourage the consumer to buy smart car by TV advertising
 - Provide discount: Discount can increase the sales of smart cars
 - Price cut: The price cut can increase the sales of smart cars
- (2 marks for each relevant remedial action, max. 4 marks)

- (ii)
 Causes:
- Price variance: The actual price of smart cars is lower than the budget one
 - Usage variance: The actual proportion of high-priced smart car is lower than the budget one
- (1 mark for each relevant cause, max. 2 marks)

- (c)
 Reasons:
- The morale of other staff in the Marketing Division of traditional vehicles will drop
 - Vicious competition in the Marketing Division of traditional vehicles will appear
 - It is different to have new idea in the promotions of traditional vehicles
- (2 marks for each relevant cause, max. 4 marks)

- (d)
 Reasons:
- The control of the existing shareholders will not be affected when debt financing is adopted.
 - The cost of debt financing is relatively low and the cost of equity financing is relatively high.
- (2 marks for each relevant cause, max. 2 marks)

- 7.(a)(i)
 Socio-cultural factor (1 mark). When the consumers make decision, they will consider the opinion of reference group and the famous blogger will be counted as an indirect referring group.(2 marks)

- (ii)
 Channels:
- Online advertising
 - Social media
 - Mobile advertising
- (1 mark for each relevant channel, max. 2 marks)

- (b)(i)
 Advantages:
- The contents of the two magazines are different. They are more able to satisfy the needs of readers in different market segments
 - As the magazines are sold to the readers in different market segments, the source of revenue will be broader
- (2 marks for each relevant advantage, max. 2 marks)

- Disadvantages:
- Publishing house has to allocate the resources to different market segments and introduce different marketing strategies at the same time. Hence, the operating cost will increase
- (2 marks for each relevant disadvantage, max. 2 marks)

- (ii)
 Concentrated marketing (1 mark)

- Disadvantages:
- There is only one market segment. The business risk is relatively high. If the business environment of this market segment becomes worse, the revenue and profit of the publishing house will decrease
 - If other competitors (such as large publishing house) enter the market of literary magazines, Miracle Publishing House has to face fierce competition
- (2 marks for each relevant disadvantage, max. 2 marks)

- (c)
 Non-financial factors:
- Strategic reason: The new printing machine can help the publishing house to achieve the objective of developing travel magazine
 - Industry standards: The requirements of travel magazine is higher. The new printing machine is able to fulfill the standards of this market segment
 - Company image: The new printing machine can improve the quality of products, and thus, the image of the publishing house can be improved
- (2 marks for each relevant non-financial factor, max. 4 marks)

- (d)
 Negative impacts:
- The risk of insufficient cash for the daily expenses increases
 - The need for debt financing increases
- (2 marks for each relevant negative impact, max. 2 marks)

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Section C

8.(a)

Manpower planning process:

1. Forecasting manpower demand under the new expansion plan: e.g. estimate the labour demand and quality of the labour
2. Assessing the existing manpower supply: review the exiting manpower supply and their qualifications, to ensure the manpower is fully utilised
3. Comparing the manpower supply and demand: identify manpower shortfall
4. Setting up the action plan: determine the ways to place recruitment advertisements and the selection means, also develop the training strategy

(2 marks for each relevant step in correct sequence, max. 8 marks)

(b)

Risk management strategies:

- Risk avoidance: The Japanese food supplier can stop developing the sushi food, so as to avoid the loss due to the food safety problem. However, the sources of revenue will decrease
- Risk assumption: The Japanese food supplier can set aside an amount of money, in order to cover the potential loss due to the food safety problem. However, the amount of cash of the Japanese food supplier will decrease and the capital will be unable to generate other investment returns
- Risk reduction: The Japanese food supplier can purchase an advanced refrigerated cabinet (/ adopt a reliable source of food ingredients), hence, the chance of having food safety problems can decrease
- Risk transfer: The Japanese food supplier can make an agreement with the insurance company. So that, the loss can be transferred to the insurance company if the ingredients deteriorate

(3 marks for each relevant risk management strategy, max. 12 marks)

9.(a)

Differences:

	Consumer market	Business market
Product	- Smaller capacity - Attach a recipe	- Larger capacity
Price	- Fixed pricing - Promotional discounts	- Bulk discounts
Promotion	- Promotion of restaurant dishes - Promote to restaurant buyers	- Television advertising, newspaper advertising, social networking sites
Place	Direct delivery to restaurants	- Distributed by supermarket and convenience stores

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

(b)

Advantages of increasing salary:

- Reduce the vicious competition between employees and build up a harmonious working environment
- Reduce the administrative costs of assessing employee performance

(2 marks for each relevant advantages of increasing salary, max. 4 marks)

Advantages of distributing the bonus

- As the distribution of bonus is related to the performance, it can be an effective motivator
- Bonus can give the company flexibility because it is not guaranteed

(2 marks for each relevant advantages of increasing salary, max. 4 marks)

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B3b / B4b Paper 1 Section A

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

1. Ans: B

B is correct, A and D are incorrect. Most summer interns are inexperienced and autocratic leadership is more suitable. Free-rein leadership and participative leadership are more suitable for experienced subordinates. D is incorrect. Most summer interns are inexperienced and autocratic leadership is more suitable. "The subordinates are responsible" is not a reason to such leadership style.

2. Ans: C

(1) is incorrect. Business ethics is not a set of moral rules that a business must follow when making decisions.

(2) is correct. Business ethics emphasizes that a business should care for the interests of all the stakeholders.

(3) is correct. Business ethics is a set of moral rules that governs business activities.

3. Ans: D

A is incorrect. A successful entrepreneur should have good management skills, including the conceptual skills.

B is incorrect. Entrepreneur can make the final decision in the enterprise. However, he is not the only decision-maker. The manager can also make decisions.

C is incorrect. Generally, the manager will earn salaries. An entrepreneur will earn profits and have to bear risk. Hence, the return of the entrepreneur is more fluctuated. It is not necessary for entrepreneur to earn higher income than manager.

D is correct. An entrepreneur has to bear the business risk, that is to bear the result of uncertainty in the market.

4. Ans: C

Double entries of this transaction:

Dr Property (non-current asset) Cr
 Loan from Jade (non-current liability)

Therefore, both non-current assets and non-current liabilities increase.

5. Ans: D

w:

Capital = Assets - Liabilities

= \$140 000 + 70 000 + 50 000 + 4 500 - 50 000

= \$214 500

6. Ans: B

(1) and (2) are incorrect. Both items are not included in the calculation of net purchases.

7. Ans: B

(1) is correct. An investor has the right to obtain information of the company, such as the financial statement of the company invested.

(2) is incorrect. Preference shareholder does not have the right to vote in annual meeting, only ordinary shareholder has voting right.

(3) is correct. Preference shareholder has the right of receiving fixed amount of dividends as investment return periodically.

(4) is incorrect. The debenture holders have the priority to get back the capital before the shareholders in case of liquidation.

8. Ans: A

B is incorrect. Current assets are shown in the ascending order of liquidity.

C and D are incorrect. There is no requirement on the order of liabilities.

9. Ans: D

The criteria of selecting constituent stocks in the HSI include the market capitalization and turnover of the company, the representation of the sub sectors within the HIS and the financial performance of the company.

10. Ans: C

C is correct. In Hong Kong, SMEs accounted for over 95% of the total business units locally.

A and B are incorrect. As the scales of SMEs are small, most of them are not listed companies. However, it is not necessarily true. SMEs can have more than one owner. D is incorrect. As the scales of SMEs are small, the expenditures of SMEs are not huge.

11. Ans: D

All of them are the limitations on the use of financial statements.

12. Ans: B

(1) is incorrect. It does not directly relate to profitability.

(3) is incorrect. It improves the profitability of business

13. Ans: A

A is correct. When the present value of cash inflows is more than the present value of cash outflows in an investment project, its NPV is positive and the firm should accept the project.

B is incorrect. NPV is the present value of all cash inflows less present value of cash outflows.

C is incorrect. When the NPV of an investment project is zero, it will not bring along any loss nor profit to the firm.

14. Ans: C

B and D are incorrect. These are the advantages to a franchisee.

A is incorrect. The goodwill of headquarter may be worsened if the performance of the franchisee is unsatisfactory.

C is correct. A franchisor can obtain revenue from franchisee, including joining fee and regular franchise fee.

15. Ans: D

Establishing code of ethics for daily operations, providing training and education about the

importance of business ethics and emphasising business ethics during recruitment are ways to enhance business ethics.

16. Ans: C

A, B and D are incorrect. Brexit, global financial tsunami and economic recession are unavoidable by global investors. They cannot be diversified and they are market risks. C is correct. The striking of the Skyline workers is the risk faced by Skyline only. It is a firm-specific risk.

17. Ans: A

(3) is incorrect.

Correct entries:

Dr Cash Cr Machinery

18. Ans: D

(1) and (2) are correct. Unity of command refers to the situation that each subordinate should report to one superior directly in an organisation. The principle of unity of command is violated if the front line salespersons report to both Mr. Ho and Miss Cheung. If the instruction they gave contradicts, the workers may be confused. (3) is correct. Directing front line subordinates is the responsibility of a first-line manager. Mr Ho is in the middle management. Directing front line worker is not one of his job duties.

19. Ans: C

C is correct. Ensuring cash for various payments belongs to the area of financial management. A is incorrect. Searching cloth suppliers is one of the production processes. Hence, it belongs to the area of operations management. B is incorrect. Performance management is a function of human resources management.

D is incorrect. Selection of target market is a function of marketing management

20. Ans: A

A is correct. Managers should adjust the standard occasionally. If the aberration is acceptable, the controlling can carry on without correction

B is incorrect. In the process of controlling, the enterprise needs to measure the actual performance regularly and systematically

C is incorrect. The first procedure of controlling is to determine the areas of controlling, such as output and sales.

D is incorrect. The survey of actual performance must be carried out regularly, to reduce the chance of out of control.

21. Ans: A

A is correct. Under MBO, subordinates can participate in setting goals and related work. Meetings and paperwork will increase.

B is incorrect. Division of work may not necessarily improve the efficiency. Under the division of work, various tasks are interdependent. When one task delays, the whole production process will be affected.

C is incorrect. This is the definition of unity of command, but not that of unity of direction.

D is incorrect. Unity of command means that each subordinate needs to report to one superior only. If the manager delegates authority, the subordinates can also make decisions

22. Ans: B

(1) is incorrect. Cash discounts can be discounts received (a revenue) or discounts allowed (an expense)

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(2) is incorrect. Trade discounts are the reduction of selling price. They are neither a revenue nor an expense.

23. Ans: C

The young single people do not have heavy financial burden. In this stage, creating and accumulating wealth for their future financial needs should be the major financial planning objectives. At the same time, they may need to study further to achieve higher qualifications. Therefore, (1) Create and accumulate wealth and (3) Plan for further study will be the young single's financial planning priorities. However, (2) planning for future retirement and (4) planning for children's university education fee will be quite far to them. These should be the minor financial needs.

24. Ans: C

(1) is correct. Starting from 1 November 2013, the monthly minimum relevant income level has been adjusted to \$7,100 for the MPF. Employees with monthly income of \$6,500 or below are not required to contribute to the scheme.

(2) is incorrect. The Mandatory Provident Fund system requires all employees and self-employed persons who are being employed for not less than 60 days continuously, aged 18 to below 65 to join an MPF scheme.

(3) is correct. Apart from mandatory contributions, both the employer and the employee can opt to make extra voluntary contributions

(4) is correct. Investment risks of an MPF scheme are entirely borne by employees.

25. Ans: D

w:

$$\text{Gross profit} / \text{Cost of goods sold} = 0.6$$

$$(\text{Sales} - \text{Cost of goods sold}) / \text{Cost of goods sold} = 0.6$$

$$(300\,000 - \text{Cost of goods sold}) / \text{Cost of goods sold} = 0.6$$

$$\therefore \text{Cost of goods sold} = \$187\,500$$

26. Ans: C

According to the business entity concept, owner's possession is separate from that in the business. Therefore, if an owner withdraws assets from business for own use, it should be recorded as drawings.

27. Ans: A

A is correct. Planning refers to the process of setting targets and determining action plans to achieve an objective. B is incorrect. Leading refers to the process of guiding and motivating a group efficiently and effectively to achieve an objective.

C is incorrect. Controlling refers to the process to make sure a plan is running smoothly as expected and to correct aberration if there is any. D is incorrect. Organising refers to the process of building the structure of an enterprise.

28. Ans: B

A is incorrect. Air quality is related to natural and geographical location. It is a physical factor affecting business decisions

B is correct. Ageing population is related to population structure of the region. It is a social factor affecting business decisions.

C is incorrect. Geographical location is a physical factor affecting business decisions.

D is incorrect. With the tense political relationship between China and America, American enterprises avoid boycott by reducing investment in China It

is a political factor affecting business decisions.

29. Ans: D

(1) is incorrect. The objective of public enterprises is to serve the general public but not to maximise profits.

(2) is incorrect. People operating public enterprises are not entrepreneurs but employees receiving salaries.

(3) is correct. The price of goods and services provided by public enterprises is lower than market price, so

they can be affordable by the low-income class.

(4) is correct. Public enterprises may still record a loss.

30. Ans: B

A is incorrect. The shares of private limited companies are not freely transferable. Shareholders do not need to worry about being taken over by other parties or losing the power of control.

B is correct. Both private limited company and public limited company enjoy limited liability.

C is incorrect. The maximum number of shareholders of a private limited company is 50, while there is no upper limit on the number of shareholders for a public limited company.

D is incorrect. A private limited company cannot issue shares to the public. It can only seek shareholder through private ways. However, a public limited company can issue shares to the public.

Paper 1 Section B

1.(a)

Mr. Chan: Sole Proprietorship (1 mark)

Mrs. Wong: Partnership (1 mark)

(b)

Reasons:

- Flexible management: Mr. Chan can make all decision for the company
- Mr. Chan can gain the whole profits and increase its profit incentives

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

(c)

Economic factors:

- Interest rate and exchange rate
- Unemployment rate and wage rate
- Consumption and Investment

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

2.(a)

- Accounting ratios are usually used to evaluate the financial performance and position of a business (1 mark)

- Making comparisons between different periods or different firms. (1 mark)

(b)

$$\text{Current ratio} = 20\,000 / 15\,000 = 1.33:1 \text{ (2 marks)}$$

$$\text{Quick ratio} = (20\,000 - 5\,000) / 15\,000 = 1:1$$

(2 marks)

3.(a)

- Unity of command: An employee is responsible to two managers at the same time (2 marks)

- Unity of direction: There are two different development targets or directions in the

company at the same time (2 marks)

4.(a)

(i) Paid postage in cash (1 mark)

(ii) Paid rent and rates for the business by the owner's personal money (1 mark)

(iii) Received goods returned from a credit customer (1 mark)

(iv) Borrowed a loan from Lee to buy a motor van (1 mark)

(v) Inventory withdrawn by the owner for personal use (1 mark)

(b)

Responsibility:

- understand the terms of a contract before signing it
- monitor activities on own account by checking account statements, transaction documents

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

(c)

- Hang Seng Index acts as a performance indicator of the movement in Hong Kong stock market (1 mark)

- Its constituent stocks represent the majority of stock trading and market capitalization in the Hong Kong stock market (1 mark)

$$(d) \quad (1\,500\,000) / (1+4\%)^3 = \$1\,333\,495 \text{ (2 marks)}$$

5.(a)

- Business entity concept (1 mark)
- Business is separated from its owner (1 mark)
- The book-keeper should record it as drawings in the books (1 mark)

(b)

Dr Drawings Cr Cash (2 marks)

(c)

- The restaurant belongs to catering industry (1 mark)

- Therefore, it needs to make mandatory provident fund contribution even if the clerk has been employed lesser than 60 days (1 mark)

(d)

Ways:

- calculate and pay the payroll
- approve a budget for the human resources department to hold training courses and recruitment seminars

- suggest the level of salary increment (1 mark for each relevant way, max. 3 marks)

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B4b Paper 2B Section A

1.
 Factors:
- Sales: As the payments of the bakery become flexible, more flour will be purchased, and thus, the sales of flour will increase
 - Profitability: As cost is involved in the collection of money, the profitability will fall / When money is tied up in accounts receivable, the flour supplier will forgo the potential investment return of the money.
 - Liquidity: The flour supplier cannot receive cash from credit sales, hence, the liquidity of the flour supplier will fall
- (2 marks for each relevant factor, max. 6 marks)

2.
 Reasons:
- The objectives of the Government is not profit maximisation, and thus, it is not easy to evaluate the performance of the civil servants
 - Salaries of civil servants should not be linked to their performance. It is because it may be resulted in a vicious competition within the Government, and thus, the efficiency will fall
- (2 marks for each relevant factor, max. 4 marks)

3.
 Reasons:
- The cost of advertising and the time of organising can be reduced
 - A large number of job seekers are attracted in a short period, in order to fill the vacancy of security guards
 - The recruitment process can be speed up. It is because the property management company can arrange immediate interviews
- (2 marks for each relevant reason, max. 4 marks)

- 4.(a)
- When the purpose of financing is to acquire fixed assets, the enterprises can adopt long-term financing. It is because the enterprises are not required to repay the loan in the short term, reducing the chance of refinancing (2 marks).

- (b)
- When the risk of bankruptcy of enterprises is low, the enterprises can use debt financing. It is because the enterprises have to pay interest regularly and also repay the principal when debt financing is adopted. It will further increase the risk of bankruptcy (2 marks).

5.
 Factors:
- Enterprises should identify the target, such as the potential customers of new products
 - The larger the sample survey, the higher the reliability will be, but Company ABC has to pay a higher cost. Hence, the marketing department staff must balance the reliability and cost
 - The marketing department staff should consider how to select the respondents, such as random sampling, stratified random sampling
- (2 marks for each relevant factor, max. 6 marks)

Section B

- 6.(a)(i)
 Payback period:
 = \$5.5 million / \$1 million/year
 = 5.5 years (1 mark)
- (ii)
 Reasons:
- Time value of money is ignored
 - Cash flows after the payback period are ignored
 - Fail to illustrate the absolute value of the project
- (2 marks for each relevant reason, max. 4 marks)

- (b)
 Reasons:
- Purchasing power: the income of the young men who dislike dining out is sufficient to support the online ordering services
 - The growth of market segment: The number of young men who dislike dining out is increasing, and thus, there is a potential growth of this market segment
 - Distinctiveness: Pizza Chain Store can reach the young men who dislike dining out, by using the group in social media
 - Competition: There is a few competitors who will develop the market of the young men who dislike dining out
- (2 marks for each relevant reason, max. 6 marks)

- (c)
 insurable risk (1 mark)
- Reasons:

- Traffic accident can only result in a loss, hence, it is not a speculative risk
 - Traffic accident is uncontrollable
 - Insurance company can calculate the probability of a traffic accident, in order to measure the cost of the policy
 - Traffic accident involves a small number of people who suffer from loss. It will not result in a large-scale claims in general
- (2 marks for each relevant reason, max. 4 marks)

- (d)
 Method:
- Hire part-time cooks who are responsible for the work in off-peak hours
 - Outsource non-core duties in the kitchen, in order to relieve the pressure on the cooks
- (2 marks for each relevant method, max. 2 marks)

- 7.(a)(i)
 Characteristics:
- Intangibility: Passengers cannot see or feel the services of flight attendants before he is on the flight
 - Inseparability: Unless the passengers are on the flight, they cannot enjoy the services of flight attendants
 - Variability: The quality of services may vary according to the different flights, different flight attendants, or to different passengers.
 - Perishability: The flight attendants can only provide immediate services to the passengers

- on the flight. The services cannot be provided in advance
 (2 marks for each relevant characteristic, max. 6 marks)

- (b)
 Methods:
- Improve the quality and taste of the airplane meals, so as to meet the requirement of the passengers in Country A
 - Establish a Miles Savings Plan to maintain contact with passengers through redemption of tickets or gifts
 - Response to the complaints from passengers quickly, so as to reduce their dissatisfaction
 - Provide additional hotel booking services, in order to fulfill the accommodation needs of passengers
- (2 marks for each relevant method, max. 4 marks)

- (c)
 Reasons:
- Strategic reason: The new printing machine can help the publishing house to achieve the objective of developing travel magazine
 - Industry standards: The requirements of travel magazine is higher. The new printing machine is able to fulfill the standards of this market segment
 - Company image: The new printing machine can improve the quality of products, and thus, the image of the publishing house can be improved
- (2 marks for each relevant non-financial factor, max. 4 marks)

- (d)(i)
 The increase in allowance is a hygiene factor. It can only prevent the staff from feeling dissatisfied. However, it cannot motivate the staff to work hard (2 marks).

- (ii)
 The increase in allowance can only satisfy the lower-order needs, such as physiological needs. If the staff has satisfied the lower-order needs and is pursuing the higher-order needs, the increase in allowance cannot result in any motivation effect (2 marks).

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Section C

8.(a)

Purposes:

- Planning: Provide the travel agent with directions and goals to develop the smartphone app
- Organising: As a guideline for resources allocation, the travel agent can measure how many resources are required for the project
- Leading: Allow the management of the travel agent to provide specific and quantitative working target to the staff
- Control: As a standard for performance measurement, the management of the travel agent can ensure that the staff are working towards the goal of developing smartphone app

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

(b)

Evaluation methods:

- Written applications: The HR manager can ensure that the candidates have relevant academic background and work experience in writing a program, based on their cover letter and curriculum vitae
- Work sampling technique: Candidates are required to complete a task of writing a program. This can reflect whether the candidates are qualified for the job
- Interview: The interviewer can observe the response of the candidates directly, so as to measure their awareness of the work and the development of mobile phone program
- Reference check: According to the information provided by the candidates, the HR manager can inquire the current supervisor or employer about the ability of the candidates

(3 marks for each evaluation method, max. 12 marks)

9.(a)

Strength (positive internal factor):

- The fried chicken chain has got the equipment of fried chicken
- The bargaining power for chicken suppliers is higher

(3 marks for each strength, max. 3 marks)

Weakness (negative internal factor):

- Employees are not familiar with the production of Korean food
- The workload of the employees will increase

(3 marks for each weakness, max. 3 marks)

Opportunity (positive external factor):

- Demand for Korean food is increasing

(3 marks for each opportunity, max. 3 marks)

Threat (negative external factor):

- More Korean restaurants opened, and thus, the market competition is increasing
- The image of the American fried chicken chain will become unclear

(3 marks for each threat, max. 3 marks)

(b)

Performance management process:

1. Formulating clear and measurable performance standards: such as the target time to complete an order
2. Measuring performance and monitoring goal achievement: such as the change in the average time to complete an order and the difference between the target time
3. Providing feedback and coaching on the performance result: such as the method to speed up each order
4. Making HRM decisions: such as move the unimproved staff out of the front line

(2 marks for each relevant step in correct sequence, max. 8 marks)