

BAFSSCHOOL OF THE HONG KONG ECONOMIC TIMES  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION  
MOCK PAPER 2018

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

Time allowed: 1 hours 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. **ANSWER ALL QUESTIONS.** All questions in this section carry equal marks.
3. You should choose only **ONE** answer for each question.
4. 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 is the reason for allowing cash discount to customers?
- A. Receive goods returned from customers
  - B. Encourage bulk purchases from customers
  - C. Encourage credit customers to repay earlier
  - D. Avoid inventory loss

2. Based on the following information, calculate the amount of purchases.

	\$
Opening inventory	21 000
Operating expenses	35 000
Carriage inwards	7 000
Closing inventory	29 000
Net profit	11 000
Sales	92 000

- A. \$46 000
  - B. \$47 000
  - C. \$48 000
  - D. \$49 000
3. Sunshine tech company chooses to set up offices in places with low profits tax rates. Which of the following factors is implied in the determination of office location?
- A. Social and cultural factor
  - B. Physiographical factor
  - C. Governmental factor
  - D. Technological factor

4. Which of the following is / are the possible reason(s) for a company to change from a private limited company to a listed company?
- (1) To broaden its source of capital
  - (2) To keep its financial information confidential
  - (3) To issue shares to the public
- A. (1) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
5. Which of the following can show the importance of controlling?
- A. It can remedy the error promptly, in order to reduce loss.
  - B. It can improve staff morale and raise their productivity.
  - C. It can ensure employees from different positions to have proper division of labour.
  - D. It can extend the objectives to other management functions.
6. Which of the following transactions will affect the amount of capital of a business?
- (1) A business purchased office equipment by owner's personal cheque.
  - (2) The owner borrowed a personal loan for the business.
  - (3) The owner withdrew a motor van from business to a supplier as a settlement of a debt.
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
7. Which of the following accounts must have a balance on the debit side of a trial balance?
- (1) Bank
  - (2) Inventory
  - (3) Returns inwards
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)

8. Which of the following double entries relating to the transactions of owner are correct?

	<u>Transaction</u>	<u>Account to be debited</u>	<u>Account to be credited</u>
A.	The owner withdrew inventory from the business for his own use.	Purchases	Drawings
B.	The owner introduced cash into the business bank account.	Bank	Capital
C.	The owner borrowed a personal loan from a bank.	Bank	Bank loan
D.	The owner received free samples from suppliers.	Promotion expenses	Trade payables

9. "The management empowers Mr. Cheung to take the responsibility of the production of new products." Which management function does the delegation of authority belong to?

- A. Leading
- B. Organising
- C. Planning
- D. Controlling

10. Which of the following statements on risk management is correct?

- A. All risks are worth to be dispersed by purchasing insurance.
- B. A function of risk management is to ensure a steady growth of profits.
- C. One of the objectives of risk management is to control the potential loss due to uncertainty.
- D. The uncertainty involved in risk management will definitely result in loss.

11. Which of the following are the contributions of small and medium enterprises to the economy?

- (1) Lower the inflation rate
  - (2) Support the large enterprises
  - (3) Develop new products
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

12. Tak puts \$5,000 into bank as a fixed deposit. The annual interest rate is 5%, compounded semi-annually. How much will Tak's deposit be after 1 year?

- A. \$5,250.00
- B. \$5,253.16
- C. \$5,500.00
- D. \$5,512.50

13. On 1 January 2017, Jenny set up a firm with cash of \$200 000. Out of this amount, \$150 000 was banked on the same day. On 31 December 2017, total assets and total liabilities of the firm were \$370 000 and \$260 000 respectively. During the year, Jenny made regular cash drawings of \$10 000 per month.

What is the net profit of the firm for the year 2017?

- A. \$30 000
- B. \$90 000
- C. \$110 000
- D. \$140 000

14. An owner repaid a trade payable using his own money. 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	unchanged
C.	unchanged	decrease
D.	unchanged	unchanged

15. Which of the following persons must join the MPF scheme?

- A. Self-employed hawkers
- B. Domestic helpers
- C. Civil servants
- D. Temporary employees of catering industry

16. "In Company ABC, each manager in middle management is only required to report to one senior manager." Which principle of effective management does it reflect?

- A. Unity of command
- B. Unity of direction
- C. Division of labour
- D. Management By Objective (MBO)

17. Which of the following descriptions about management by objective is correct?
- A. Management by objective can reduce paper work.
  - B. Superior may not participate after setting the goal.
  - C. The purpose of the assessment by superior is to revise the goal.
  - D. The determination of a definite goal is one of the keys to success.
18. A company is planning to lay off some employees. Which of the following management departments' situations should be considered in the human resources manager's planning?
- (1) Operations department, because the operation of the enterprise will be affected by the layoff.
  - (2) Marketing department, because the movement in the labour market should be considered in the layoff decision.
  - (3) Financial department, because the purpose of layoffs is to control the human resources expenses.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
19. Assume that the cost of an investment plan is \$50,000. It can generate a cash inflow of \$65,000 after 3 years and the discount rate is 10%. What is the net present value of the investment plan?
- A. Zero
  - B. Positive
  - C. Negative
  - D. There is not enough information to calculate.

**Based on the following information, answer Questions 20 to 21:**

Mr. Lau is operating Green Tree Restaurant in the form of sole proprietorship. Due to the growing business, he wants to work with his friend, Miss Lee to increase the number of branches to 10 within 5 years. Both of them expect not to disclose the financial reports of the restaurant, and enjoy limited liability after the expansion.

20. Which of the following about Green Tree Restaurant which is operated in the form of sole proprietorship by Mr. Lau is correct?
- A. Green Tree Restaurant is a legal entity.
  - B. It is not necessary for Green Tree Restaurant to disclose its financial information.
  - C. Mr. Lau does not have absolute control on the management of Green Tree Restaurant.
  - D. If Miss Lee also becomes the owner of Green Tree Restaurant, the restaurant can still be run in the form of sole proprietorship.
21. After the expansion, the most possible form of business ownership of Green Tree Restaurant is a \_\_\_\_\_.
- A. limited partnership
  - B. private limited company
  - C. company listed on the Main Board
  - D. company listed on the Growth Enterprise Market
22. Which of the following descriptions of trade discounts offered to customers are correct?
- (1) They are offered by a trading firm only.
  - (2) They are used to encourage a bulk purchase.
  - (3) They are expenses.
- A. (1) only
  - B. (2) only
  - C. (1) and (3) only
  - D. (2) and (3) only
23. According to (1) concept, owner's salary should be treated as (2).
- |    |                 |            |
|----|-----------------|------------|
|    | <u>(1)</u>      | <u>(2)</u> |
| A. | business entity | drawings   |
| B. | business entity | an expense |
| C. | going concern   | drawings   |
| D. | going concern   | an expense |

24. In the trial balance, if the total of credit balances is large than the total of debit balances, it means that \_\_\_\_.
- A. there is net profit for the year
  - B. the owner introduced assets to the business
  - C. there is an error in the double entries
  - D. there is net assets at that date
25. Which of the following is a possible objective for an enterprise to sell its franchise?
- A. Receive more training
  - B. Own potential customers
  - C. Reduce promotional expenses
  - D. Receive stable income
26. Dr. Chan is leading a team of scientists. They are required to develop the A.I. robot within a specified period of time. Dr. Chan will adopt \_\_\_\_\_ because he has considered \_\_\_\_\_.
- A. autocratic leadership . . . . . the characteristics of his subordinates
  - B. laissez-faire leadership ..... the working environment
  - C. participative leadership . . . . . the characteristics of his subordinates
  - D. autocratic leadership . . . . . the job nature
27. List the following assets according to their risk level in descending order:
- (1) Cash
  - (2) Government bond
  - (3) Enterprise bond
  - (4) Ordinary share of a small enterprise
- A. (1), (2), (3), (4)
  - B. (1), (4), (3), (2)
  - C. (3), (2), (4), (1)
  - D. (4), (3), (2), (1)



28. Which of the following business acts can be regarded as unethical?
- (1) To offer customers with food without nutrition value
  - (2) To punish staff who is unethical
  - (3) A superior asks for an unreasonable job requirement to his subordinate
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
29. Mr. Au is going to retire in next year and his two children are married. Which of the following is his major financial need?
- A. Retirement reserve
  - B. Studying expenditure
  - C. Children expenditure
  - D. Insurance expense
30. Which of the following pairs about Main Board and Growth Enterprise Market (GEM) is correct?
- |                                   |             |            |
|-----------------------------------|-------------|------------|
|                                   | <u>Main</u> | <u>GEM</u> |
| A. Turnover                       | More        | Less       |
| B. Market capitalisation required | Lower       | Higher     |
| C. Risk to invest                 | Higher      | Lower      |
| D. Number of company              | Fewer       | More       |

**END OF SECTION A**

**SECTION B** (30 marks)

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

1.
  - (a) Although electronic payments are common nowadays, some people still choose to pay in cash. State one disadvantage of using electronic payments. (2 marks)
  - (b) State two factors that will adversely affect the personal credit records. (2 marks)
  
2. Flora owns a medical laboratory. She decides to expand her business by setting up a branch in the Mainland. Green Company, a business consultancy, recommends Flora to grant a franchise the business in the Mainland.
  - (a) Apart from political and legal factors, explain two types of external factors that would affect Flora's decision on whether to set up a branch in the Mainland. (4 marks)
  - (b) State one disadvantage of granting a franchise. (2 marks)
  
3. Wendy plans to purchase a chair at \$50 000 for her business. The chair is expected to be used for three years. Wendy will need to pay \$1 000 for polishing before selling the chair for \$20 000 at the end of the third year. The chair can generate an annual cash flow of \$14 000.

The cost of capital is 8% per annum.

  - (a) Calculate (to the nearest dollar) the net present value of the chair. (3 marks)
  - (b) Should Wendy purchase the chair? Briefly explain. (1 mark)
  
4. A company decides to launch a new product. Explain one function of the marketing department. Also, state how the financial department and the human resources department can cooperate to support the marketing department introduce the new product in the market. (6 marks)

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

**Based on the following information, answer either Question 5 or 6.**

Vinci commenced a retail shop selling households on 1 January 2017. Five employees were hired as salespersons.

The following balances were obtained from her books as at 31 December 2017:

	\$
Carriage inwards	2 300
Wages and salaries	176 200
Sales	445 000
Purchases	190 000
Bank overdraft	14 000
Discounts allowed	6 500
Capital, 1 January 2017	714 500
Property, plant and equipment	800 000
Returns inwards	3 900
Returns outwards	5 400

**Answer ONE question.**

5. (a) Prepare for Vinci's firm a trial balance as at 31 December 2017. (5 marks)

Vinci set a goal for her firm.

"To increase customers' satisfaction with our products"

- (b) State the management function that the task of setting goals belongs to. (1 mark)
- (c) Briefly explain two characteristics of a SMART goal that are missing from the above goal. (4 marks)

(Total: 10 marks)

6. The inventory as at 31 December 2017 was valued at \$56 000.

- (a) Prepare for Vinci's firm an income statement for the year ended 31 December 2017. (5 marks)

Recently, Vinci received a number of complaints about the inferior quality of a mop.

- (b) If Vinci ignores customers' complaints, explain two possible adverse impacts on her firm. (4 marks)
- (c) Apart from customers, identify another stakeholder of Vinci's business. (1 mark)

(Total: 10 marks)

**END OF PAPER**

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MOCK PAPER 2018

**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. Tim Kee sells 150 cans of juice every day. The wholesaler promises that the goods are delivered every 5 days and the transportation fee is \$80 per order. Tim Kee will keep 20 cans of juice as a safety stock.
  - (a) Calculate the re-order point of Tim Kee (round to an integer). (2 marks)
  - (b) List two reasons that Tim Kee should keep safety stock. (4 marks)
  
2. Ruby Car Park is planning to hire night shift security guard.
  - (a) Apart from interview, give three methods for Ruby Car Park to select the applicants. (3 marks)
  - (b) Give three suitable channels for Rudy Car Park's recruitment advertising. (3 marks)
  
3. A company is assessing an investment project and the estimated net present value of this project is positive. Give two reasons that the company does not necessarily invest in this project. (4 marks)
  
4. Comparing with undifferentiated marketing, the cost of marketing activities is relatively high when differentiated marketing is adopted. Give two reasons to explain why many companies still adopt differentiated marketing strategy. (4 marks)
  
5. Recently, Garden Bookstore introduced a new inventory management system. Although the system cannot improve the bookstore's sales, the average inventory decreases. Analyse the impact of this system on the inventory turnover of Garden Bookstore. (4 marks)

**SECTION B** (36 marks)

Answer **ALL** questions in this section.

6. Mario Company is a world-renowned computer game software company which has released several widely acclaimed computer games. However, with a growing popularity of using smartphones in recent years, most consumers generally lose their passion to computer games and convert to play smartphone games. In view of this, managers from all departments are designing adequate marketing strategies which are to be adopted in the current stage of the product life cycle and considering a possibility of developing smartphone games in the future.

In the meeting, Mary, the Marketing Manager said, "The market is changing. We must create brand-new smartphone games to access new markets and attract customers there."

James, the Operation Manager, disagreed, "We should choose some former popular computer games and transform them into the version for smartphone games to fully leverage on our company's advantages."

"Apart from developing new products, should we also issue share options to game design team with satisfactory performance to encourage them to work hard?" Aaron, the Human Resources Manager, asked.

- (a) In response to the stage of the product life cycle in which computer games are in, suggest one distribution strategy and one marketing strategy to Mario Company. (4 marks)
- (b) If Mario Company considers entering the smartphone game market, conduct a SWOT analysis on this new market for the management. (4 marks)
- (c) State one disadvantage of the suggestions of Mary and James respectively. (4 marks)
- (d) Suggest two performance standards to Aaron. (2 marks)
- (e) What will be the advantages to Mario Company if it issues share options to game design team? Explain two of them. (4 marks)

(Total: 18 marks)

7. Macy is a sole proprietor and she runs a shop selling organic soaps in Mong Kok. All soaps are made by Macy inside the shop. With a rising number of customers, the supply of organic soaps manufactured by Macy cannot meet the demand. Therefore, Macy plans to expand her business by mass production of organic soaps through mechanical procedures.

The machine brought by Macy and used for manufacturing organic soaps costs \$200,000 with an estimated useful life of 4 years and a residual value of \$50,000 after that. Macy estimates the values created by the machine per year as follow:

Year	Cash inflows (\$)
1	94,000
2	76,000
3	64,000
4	48,000

Currently the deposit interest rate and lending rate offered by the bank are 1.5% and 5% respectively.

Macy's friend, Calvin, believes that Macy will face a lot of risks when buying machines for manufacturing, therefore a suitable risk management is necessary.

- (a) State the current distribution channel of Macy's organic soaps shop. Explain one possible reason and one limitation of adopting this distribution channel. (5 marks)
- (b) Apart from using personal savings, state two financing methods for Macy to expand her business. (2 marks)
- (c) Calculate the (i) payback period and (ii) net present value (round to 2 decimal places) of the machine mentioned above. Based on the above analysis, explain whether Macy should buy the machine for production. (6 marks)
- (d) What is risk management? Briefly describe two risks that Macy may face and suggest one risk management strategy for each of the risks. (5 marks)

(Total: 18 marks)

**SECTION C (20 marks)**

Answer **ONE** question in this section.

8. Happy Travel is a private limited company established for 30 years. It is famous in the tourism industry.

(a) From the management perspective, explain why debt financing is preferred over equity financing. (9 marks)

(b) With reference to (i) Maslow's Hierarchy of Needs Theory and (ii) Herzberg's Dual-factor Theory, explain, with example, why the measures introduced by the management of Happy Travel cannot motivate the staff effectively. (11 marks)

(Total: 20 marks)

9. Using a coffee shop as an example, explain

(a) how customer relationship management is used to enhance customer loyalty. (8 marks)

(b) what the benefits of performance management are. (12 marks)

(Total: 20 marks)

**END OF PAPER**



## 丙部

8.(a)  
步驟：

1. 航空公司應檢視企業當前的表現，了解企業在目標顧客的評價，從而掌握企業在市場中的位置。
2. 進行強弱機危分析，航空公司應評估企業內在的優點和缺點，同時分析市場環境轉變所帶來的機會與危機。
3. 制訂市場營銷目標。航空公司應制訂一個可量度、具體、具挑戰而又可達到的目標，例如提升航空市場的佔有率或提升航空公司的利潤水平。
4. 航空公司須進行市場研究，分析航空市場的趨勢，並進行市場區隔，最後選定最合適的市場組別。
5. 訂立市場營銷策略。航空公司應按市場的競爭情況，選擇合適的市場營銷策略。
6. 編製市場營銷計劃。航空公司須編訂合適的市場營銷組合，並預計市場營銷計劃所需的資源與成效。

(每項適切的步驟 2 分，最高 12 分)

(b)  
方法：

- 在 X 理論下，機艙服務員是假設不喜歡和會拒絕工作，所以管理人員必須密切監察他們的工作。
- 機艙服務員工作只為金錢，所以航空公司應該向他們提供較高的金錢報酬。
- 管理人員需要提供較詳細的工作指示，因為機艙服務員欠缺工作熱誠，只會做基本的工作。
- 機艙服務員追求較安穩的工作，因航空公司可以提供較大的工作保障，例如簽訂較長的合約。

(每項適切的方法 2 分，最高 8 分)

9.(a)  
優點：

- 由於短期融資的貸款期較短，百貨公司應該支付較少利息，即融資成本較低。
- 短期融資的手續較為簡單，百貨公司可在較短時間內取得資金。
- 較多機構提供短期貸款，百貨公司可以有更多選擇。

缺點：

- 短期融資的借貸額一般不會太高，百貨公司未必能借足夠款項購買貨車。
- 短期融資的貸款期較短，百貨公司未必能在貸款到期後再次取得貸款，可能會影響它的資金安排。
- 短期貸款的利率較波動，百貨公司須面對較大的利率風險。

(每項適切的優點或缺點 2 分，最高 10 分)

(最少一項優點和一項缺點)

(b)  
購買過程：

1. 問題認知。百貨公司由於要提供送貨服務，從而引發了需要。
2. 當百貨公司知道需要後，它會透過描述需要和產品特點，分析需要購買貨車的數目。
3. 百貨公司會物色可以滿足它的需要及協助其解決問題的產品供應商。
4. 百貨公司會評估不同款式的貨車，並衡量不同供應商提供的方案，例如價格、服務質素、保養和售後服務等。
5. 百貨公司會評估貨車供應商的服務，並檢討供應商的產品和服務是否達到期望，若百貨公司滿意服務，則會在下次選用同一個供應商。

(每項適切的步驟 2 分，最高 10 分)

R.T.O

Ans to 4a

Paper 1

## Section A

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

1. Answer: B

It is a trade discount.

2. Answer: B

w:

Gross profit – Operating expenses = Net profit

∴ Gross profit

= Net profit + Operating expenses

= \$11 000 + 35 000 = \$46 000

Sales – (Opening inventory + Purchases + Carriage inwards – Closing inventory) = Gross profit

∴ Purchases

= Sales – Gross profit – Opening inventory – Carriage inwards + Closing inventory

= \$92 000 – 46 000 – 21 000 – 7 000 + 29 000

= \$47 000

3. Answer: C

Profits tax policy is a governmental policy. Sunshine Tech. chooses to set up offices in places with low profits tax rate. It is found that the determination of office location has taken governmental factor into consideration.

4. Answer: B

(1) and (3) are correct. A listed company can issue shares to the public, but a private limited company cannot. Therefore, the source of capital of a listed company is broader than that of a private limited company.

(2) is incorrect. Listed company must disclose its financial conditions to the public by publishing relevant information in newspapers or on its website. However, a private limited company does not need to do so. Therefore, the financial condition of a private limited company can be more confidential.

5. Answer: A

Controlling can monitor the operation process. If deviation is found, manager can remedy it as soon

as possible, so the loss can be reduced. In addition, leading can improve staff morale, so as to increase productivity; planning can extend the objectives to other management function, so as to avoid them to deviate from the target.

6. Answer: A

(3) is incorrect.

Double entries: Dr Trade payable Cr Motor van

7. Answer: C

(1) is incorrect. Bank account can be in credit balance, i.e. the bank overdraft.

8. Answer: B

Correct entries:

	Transaction	Account to be debited	Account to be credited
A	The owner withdrew inventory from the business for his own use.	Drawings	Purchases
C	The owner borrowed a personal loan from a bank.	No entry	
D	The owner received free samples from suppliers.	No entry	

9. Answer: B

Organising refers to the setting up of internal structure, of which the job and responsibility of each staff can be clearly defined. Hence, the delegation of authority mentioned in the question can be regarded as organising.

10. Answer: C

Risk refers to the uncertainty of outcome. Risk management is the appropriate method to control and manage risk. One of its objectives is to control the potential loss due to uncertainty.

11. Answer: C

(2) is correct. In general, large enterprises will focus on their core business. SMEs can support them. For example, for the large enterprises that produce cars, SMEs will produce components for them.

(3) is correct. The operations of SMEs are flexible. They can adapt to the market change in a short period of time, and then provide the timeliest new products.

12. Answer: B

$\$5,000 \times (1+0.05/2)^2 = \$5,253.16$

13. Answer: A

w:

Closing capital

= \$370 00 – 260 000

= \$110 000

Closing capital

= Opening capital + Net profit for the year – Drawings

\$110 000

= \$200 000 + Net profit for the year – \$10 000 × 12

∴ Net profit for the year = \$30 000

14. Answer: C

Capital increases while trade payable (current liability) decreases.

15. Answer: D

A, B and C are incorrect. According to the "Mandatory Provident Fund Schemes Ordinance", domestic helpers and self-employed hawkers are exempted from joining the MPF scheme. Some of the civil servants are protected by statutory pension, and they are also exempted.

D is correct. Employees aged between 18 and 65 of catering industry must join the MPF scheme, regardless they are being employed by regular or temporary basis.

16. Answer: A

As the commands are received from the same superior, it can avoid contradicting instructions.

17. Answer: D

If the goal is too high and beyond the ability of the staff, it will not be achieved successfully.

18. Answer: B

(2) is incorrect. Marketing department is only required to understand the market trend of the products or services. Monitoring the labour market is the duty of human resources department.

19. Answer: C

Net present value

=  $65,000 / (1+10\%)^3 - 50,000$

= -1,164.538 < 0

20. Answer: B

A is incorrect. Being a sole proprietorship, Green Tree Restaurant is not a legal entity.

B is correct. Being a sole proprietorship, it is not necessary for Green Tree Restaurant to disclose its financial information.

C is incorrect. Being a sole proprietor, Mr. Lau has absolute control on the management of Green Tree Restaurant.

D is incorrect. There is only one owner in a sole proprietorship.

21. Answer: B

A private limited company does not need to disclose its financial reports, and all owners can enjoy limited liability.

22. Answer: B

(3) They are not recorded in the books under double entries. Therefore, they are not expenses.

23. Answer: A

It is an accounting custom that owner's salary should not be recorded in the books. Therefore, when an owner withdraw assets out of the business, it should be recorded as drawings.

24. Answer: C

D is incorrect.

Net assets = Assets – Liabilities = Capital

25. Answer: D

Franchisees must share their profits with franchisor, so franchisor can receive stable income through selling a franchise.

26. Answer: C

C is correct. Scientists are competent and experienced. Hence, participative lea

27. Answer: D

If an enterprise is unable to repay its capital, bondholders can have their compensation earlier than ordinary shareholders, so their risk is lower. Moreover, the chance of having default risk of the government is lower than that of enterprises, and holding cash only involves inflation risk. Thus, the risk level of the aforementioned assets in descending order is: ordinary share of a small enterprise, enterprise bond, government bond and cash.

28. Answer: B

(1) and (3) are correct. They are unethical examples of business acts.

29. Answer: A

Mr. Au's children are grown-up and financially independent. His financial need is to save for his retirement reserve.

30. Answer: A

## Section B

1.(a)

Personal data may be stolen and thus payers may suffer pecuniary loss. (2 marks)

(b)

Factors:

- Late repayment
  - The borrower has ever gone bankrupt
- (1 mark for any relevant factor, max. 2 marks)

2.(a)

Factors:

- economic factor: e.g. wages level, rent level
- physical factor: e.g. whether the location is near hospitals or clinics
- social factor: e.g. language used by the employees in Mainland
- cultural factor: e.g. whether it is popular to use medical laboratory

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

(b)

Disadvantages:

- The franchisee may cheat on the profit that will affect the amount of royalty.
- After the franchisees know the business secrets, they may set up similar companies and become competitors.
- If a franchisee fails to operate, it may adversely affect the business image.

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

3.(a)

NPV

$$= \$14\,000 / 1.08 + \$14\,000 / 1.08^2 + (\$20\,000 - 1\,000 + \$14\,000) / 1.08^3 - \$50\,000 = \$1\,162 \text{ (3 marks)}$$

(b)

Yes, because the NPV is positive. (1 marks)

4.

Marketing department:

- conduct market research
- formulate marketing strategies to effectively promote the new product in the market
- Financial department
- approve budget for the marketing department to launch the new product
- Human resources department
- decide whether it is a need to recruit staff

(2 marks for each relevant elaboration of a department, max. 6 marks)

5.(a)

See next page

(b)

Planning (1 mark)

(c)

Characteristics:

- measurable: customers' satisfaction is not quantifiable
- time-bond: the goal does not specify the targeted timeframe
- specific: it does not specify the types of households

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

6.(a)

See next page

(b)

Adverse impacts:

- It will harm the business reputation.
- Customers will lose confidence and thus will affect the sales.
- Customers may sue Vinci and claim for compensation.

(2 marks for each relevant adverse impact, max. 4 marks)

(c)

Any one @ 1 mark: employees /suppliers / lenders / government / public

5(a)

Vinci

Trial Balance as at 31 December 2017

	Dr	Cr	
	\$	\$	
Carriage inwards	2 300		0.5
Wages and salaries	176 200		0.5
Sales		445 000	0.5
Purchases	190 000		0.5
Bank overdraft		14 000	0.5
Discounts allowed	6 500		0.5
Capital, 1 January 2017		714 500	0.5
Property, plant and equipment	800 000		0.5
Returns inwards	3 900		0.5
Returns outwards		5 400	0.5
	<u>1 178 900</u>	<u>1 178 900</u>	
			<u>5</u>

6(a)

Vinci

Income Statement for the year ended 31 December 2017

	\$	\$	
Sales		445 000	0.5
Less: Returns inwards		<u>3 900</u>	0.5
Net sales		441 100	
Less: Cost of goods sold			
Purchases	190 000		0.5
Less: Returns outwards	<u>5 400</u>		0.5
	184 600		
Carriage inwards	<u>2 300</u>		0.5
	186 900		
Less: Closing inventory	<u>56 000</u>	<u>130 900</u>	0.5
Gross profit		310 200	0.5
Less: Expenses			
Wages and salaries	176 200		0.5
Discounts allowed	<u>6 500</u>	<u>182 700</u>	0.5
Net profit		<u>127 500</u>	0.5
			<u>5</u>

## B4a Paper 2B

### Section A

1.(a)  
Re-order point of Tim Kee  
=  $(150 \times 5 + 20) = 770$  cans (2 marks)

- (b)  
Reasons:
- Tim Kee can reserve some safety stock to satisfy the unexpected increase in demand, so as to prevent the juice from being sold out.
  - Safety stock can avoid the shortage of goods caused by delayed supply by the juice supplier.
- (2 marks for each relevant reason, max. 4 marks)

2.(a)  
Selection methods

- Preliminary screening of the applicants' resume.
- Inquire the applicants' former employers about their working background.
- Request the applicants to provide qualified medical examination certificate.

(1 mark for each relevant method, max. 3 marks)

(b)  
Advertising channels:

- Publish on the newspaper job advertisement.
- Post the advertisement outside the car park.
- Recruit through the Job Centers of the Labor Department.
- Recommend by existing security guards.

(1 mark for each relevant advertising channel, max. 3 marks)

3.  
Reasons:

- The company does not have enough resources to invest in the project.
- The company may reject the project based on the results of other appraisal methods, for example, the payback period of the project is too long.
- The company may find other investment projects with better returns. Hence, even if the net present value of the project is positive, it is discarded.

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

4.  
Reasons for adopting differential marketing:

- Consumers in different market segments have different needs. If the company adopts the same marketing strategy for the entire market and sells the same product, it is easy to lead to a waste of resources. (2 marks)
- When the company can satisfy the needs of consumers in different market segments, it can maximise its market share. (2 marks)

5.  
Inventory turnover  
=  $\text{cost of goods sold} / \text{average inventory}$  (1 mark)  
As the system does not affect the sales, the cost of goods sold remains unchanged. (2 marks)  
As the cost of goods sold remains unchanged and the average inventory decreases, the inventory turnover will increase. (1 mark)

### Section B

6.(a)  
Computer games are in the decline stage. The marketing strategies are as follows:

- Distribution strategy: Phase out the unprofitable channel members and retain only a few effective channel members for distribution, which is to adopt selective distribution strategy to save on distribution costs. (2 marks)
- Marketing strategy: In order to save unnecessary expenses and reduce marketing, the remaining promotional activities should be retained to loyal customers. (2 marks)

(b)  
SWOT analysis of Mario Company

- Strengths: Mario is a computer game software company with a high reputation in the gaming industry. Hence, the game players will have confidence in their products. (1 mark)
- Weaknesses: For Mario, smartphone game is a new market. Existing technologies of producing computer games may not be applicable on smartphone games. Hence, additional resources are required for research and development. (1 mark)
- Opportunity: Smartphone game market is an emerging market which has great potential for development. If Mario can reform successfully, it may achieve better development. (1 mark)
- Threats: The threshold for the smartphone game market is lower than that of traditional computer games. When a large number of competitors enter the market, Mario will be required to spend more resources for competition. (1 mark)

(c)

- Disadvantage of Mary's suggestion: A long period of time and a lot of resources are required to create a completely new game. Mario may miss the best timing to compete, as the smartphone game market is changing rapidly. (2 marks)
- Disadvantage of James' suggestion: If Mario just transforms the computer games into smartphone games, the customer may think that it is not new / the games may only be able to attract the purchase of previous computer game players, and unable to attract new customers. (2 marks)

(d)  
Performance standards:

- Time required to develop a new game software (1 mark)
- The sales of developed games (1 mark)

(e)  
Advantages of issuing stock options:

- The design team can be motivated to design games of higher quality popularity. The high-quality and popular game software can boost the company's performance, as well as its share price. Hence, the benefits generated from the share options will increase. (2 marks)
- It can increase the stability of the team. The issuance of share options is a long-term incentive. The design team can enjoy benefits when the share price of the company rises. Hence, it can keep the team member to stay and work in the company for a longer period. (2 marks)

7.(a)  
The distribution channel adopted by Macy is direct distribution (1 mark).

The reason for Macy to adopt direct distribution may be that she can explain the usage of the products to customers more easily. It is favorable to the sales promotion. Since Macy is an organic soap producer, she is able to explain the advantages of her products to customers and to introduce suitable products to them. (2 marks)

Due to the direct distribution, Macy must take place in the sales work and therefore more resources should be invested to marketing. If there is no sufficient resources, it will be hard to meet both the production and marketing tasks at the same time. (2 marks)

(b)  
Financing methods:

- Apply for a long-term loan from a bank
- Purchase the machine by hire purchase
- Invite others to join the company to form a joint venture

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

(c)(i)  
The cash flow of the machine:

Year	Cash flow (\$)	Net cash flow (\$)
0	-200,000	-200,000
1	+94,000	-106,000
2	+76,000	-30,000
3	+64,000	+34,000
4	+48,000	+82,000

As shown in the above table, the payback period is in between 2 and 3 years.

Payback period

$$= 2 + 30,000/64,000 = 2.47 \text{ years (2 marks)}$$

Since Macy does not determine the targeted payback period, we do not have enough information to make the decision (1 mark).

(ii)

Net present value of the machine

$$\begin{aligned} &= -\$200,000 + \\ &\quad \$94,000/1.05 + \$76,000/1.05^2 \\ &\quad + \$64,000/1.05^3 + \$48,000 + 50,000/1.05^4 \\ &= \$94,368.50 \text{ (2 marks)} \end{aligned}$$

Since the net present value of the machine is greater than 0, the machine can generate positive value to Macy. Hence, she should buy the machine. (1 mark)

(d)

Risk management refers to the systematic process of an organisation identifying and assessing pure losses, and selecting and managing the most suitable technique to address those potential losses. (1 mark)

Possible risk and suitable risk management strategy:

- The malfunction of machine will stop the production. Macy can keep some stocks to maintain the supply when the machine fails accidentally. (2 marks)
- Operation of the machine may cause accidental injury. Macy can purchase accidental insurance in which any employee injured by the operation of the machine can be compensated by insurance company. Hence, Macy can transfer the risk to the insurance company.

## Section C

8.(a)

Debt financing is preferred over equity financing:

- Control: The addition of new shareholders will weaken the control of existing shareholders and reduce the influence of existing shareholders on the company. On the contrary, creditors of corporate bonds are not shareholders of the company and will not enjoy the voting rights. Hence, the allocation of power will not change. (3 marks)
- Reward: Although the company is required to pay interest for debt financing, the issue of new shares may introduce new shareholders and reduce the profitability of existing shareholders. For a 30-year-old company with a reputation, the cost of interest should be less than the impact of new shareholders' dividends. (3 marks)
- Financing costs: Interest must be paid regularly to creditors, regardless of whether the business is profitable or not, but interest expense can be tax deductible to reduce the

financing costs in disguise. However, when a company makes a profit, it pays dividends to its shareholders and cannot deduct the tax, and thus it cannot reduce the financing costs. (3 marks)

(b)

- According to Maslow's Hierarchy of Needs Theory, human needs can be divided into five levels, and people will aim to satisfy the lower-order needs first. Suppose the management will use the employee need as a motivator, the need on a certain level will no longer be a motivator when the needs of this level have been satisfied. (1.5 marks)
- When the lower-level needs of staff are not satisfied, such as physiological needs, safety and security needs, managers are unable to motivate their staff by introducing the measures which can satisfy their higher-order needs. (2 marks)
- For example, the staff members want to have a rise in salary. This is a physiological need, or a lower-order needs. However, their manager organises more social activities for them in order to enhance the relationship among employees. However, such measures can only satisfy their higher-order social needs, and thus the staffs cannot be motivated effectively. (2 marks)
- According to Herzberg's Dual-factor Theory, there are factors leading to job satisfaction (motivators) and factors preventing employees from being dissatisfied (hygiene factors). In order to achieve the motivation effect, the management should provide motivators to the staff. (1.5 marks)
- If the managers only provide hygiene factors to their staff, they can only prevent employee from dissatisfaction, but cannot motivate them effectively. (2 marks)
- For example, when a manager improves the monetary compensation and benefits to the staff, it can prevent the staff from dissatisfaction with their jobs, but cannot motivate the staff to work hard. The manager should help them to have achievement in their work in order to motivate them effectively. (2 marks)

9.(a)

Methods to improve customer loyalty:

- Coffee shop should collect the opinions of the customers, so as to improve their products and raise the satisfaction of the customers, and thus the customers will continue to consume.
- Coffee shop should have more communications with customers, so as to maintain their relationship with the company. For example, coffee shop can introduce a membership program, which can increase their frequency of visits.
- Coffee shop should set up a system to handle customers' complaints. It can ensure that all staff members understand the way to handle the complaints, so as to enhance the

efficiency and quality of handling complaints. When customers are satisfied with the service, the company's goodwill will be improved.

- Coffee shop can also provide customers with customised services to enhance customer satisfaction. This service can reduce the number of customers switching to other competitors.

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

(b)

Advantages of performance management:

- The coffee shop can improve the employees' performance by performance management because the employees will know how to improve when they receive the formal performance feedback from their managers. For example, the coffee shop can evaluate whether an employee can meet the standard of making a cup of coffee.
- Based on performance management, coffee shop managers can understand the strengths and weaknesses of existing staff in order to set a longer-term manpower planning. For example, employees who receive fewer complaints will be arranged to the front-line position.
- Performance management will provide an opportunity for employees and managers to communicate. Coffee shop managers can deepen their understanding of employees and employees can also reflect their difficulties. For example, employees can reflect that the lack of manpower is the reason of the poor performance of coffee shop.
- The assessment results of performance management can be the basis for managers to motivate employees. Managers can set up a reward or penalty system. The employee can be rewarded when they meet the standards. For example, employees who work on time will have cash rewards.
- Performance management allows coffee shop managers to arrange suitable training and development, such as providing training to employees who do not meet the standard of making coffee and asking them to obtain a qualified certificate.

(2 marks for each relevant advantage and 1 mark for each relevant example, max. 12 marks)