

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 not an account?
  - A. Net sales
  - B. Electricity
  - C. Rental income
  - D. Capital
  
2. Mr. Chan operates a restaurant by sole proprietorship. He considers to run his restaurant by partnership instead in order to \_\_\_\_\_.
  - A. become an independent legal entity
  - B. raise more capitals
  - C. reduce the expense on profits tax
  - D. speed up decision-making
  
3. This year, a firm earns a net profit of \$250 000. The gross profit margin was 30% and the net profit margin was 10%. Which of the following statement about this year are correct?
  - (1) Total expenses were \$500 000.
  - (2) Cost of goods sold was \$1 750 000.
  - (3) Closing inventory was \$75 000.
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
  
4. Which of the following are the outcomes of a company not fulfilling social responsibilities?
  - (1) The reputation of company will be negatively affected
  - (2) The company must face legal sanctions
  - (3) It may become difficult for the company to raise capital
  - A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

5. A boutique is planning to open a new branch in Central. Which of the following management functions are able to assist the manager to negotiate rental fee with the owner?
- (1) Operations management
  - (2) Financial management
  - (3) Information management
- A. (1) and (2) only  
B. (1) and (3) only  
C. (2) and (3) only  
D. (1), (2) and (3)
6. Which of the following does NOT affect personal credit rating?
- A. Outstanding debt
  - B. Bankruptcy record
  - C. The frequency of applying loan recently
  - D. Personal income
7. As at 31 December 2017, a firm had current assets amounting to \$72 000. The current ratio and quick ratio were 1.8:1 and 1.5:1 respectively. What was the amount of its inventory on that date?
- A. \$12 000
  - B. \$40 000
  - C. \$48 000
  - D. \$60 000
8. Which of the following is NOT a socio-cultural factor affecting business decision?
- A. Aging population
  - B. Rising education level
  - C. Younger generation is more conscious of health
  - D. Worsening air pollution

9. Which of the following is/are used to measure the liquidity of a company?
- (1) Current ratio
  - (2) Quick ratio
  - (3) Return on capital employed
- A. (1) only
  - B. (1) and (2) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
10. On 31 March 2018, an owner has a capital of \$432 000. The non-current assets and the current liabilities amounted to \$168 000 and \$90 200 respectively. A five-year bank loan of \$150 000 was raised.
- What is the amount of current assets on 31 March 2018?
- A. \$23 800
  - B. \$115 800
  - C. \$191 800
  - D. \$242 000

**Based on the following information, answer Question 11 to 12:**

Hai Fook Tong, a Chinese herbal shop, expanded its business by franchise in Hong Kong. During an economic downturn, its franchisees hardly earned any profit, and sold non-Hai Fook Tong products.

11. Which of the following is the possible reason that Hai Fook Tong expanded by franchise?
- A. Save promotional expenses
  - B. Control the market rapidly
  - C. Get more assistance
  - D. Raise efficiency in decision-making
12. The franchisees of Hai Fook Tong sold non-Hai Fook Tong's products. Comparing with opening its own branches, what disadvantage of franchise to franchisor does this reflect?
- A. Lower degree of autonomy on decision-making
  - B. Higher risk of damaging its reputation
  - C. Unable to terminate the business freely when there is no profit
  - D. Inflexible business operation

13. If the enterprise cannot identify the crisis before a project launches, which management function does it lack?
- Controlling
  - Leading
  - Organising
  - Planning
14. Which of the following is an advantage of division of labour?
- Increase product diversification
  - Increase the productivity
  - Increase the job satisfaction of workers
  - Increase the interdependence among different departments
15. Which of the following statements about current liabilities is correct?
- They are used for the operations of the business.
  - They are occurred to improve the liquidity of the business.
  - They are occurred to improve the profitability of the business.
  - The maturity was within 12 months from the date of statement of financial position.
16. Which of the following should be recorded on the debit side of the respective accounts?
- |                                   | <u>Account</u>    |
|-----------------------------------|-------------------|
| (1) Increase in trade receivables | Trade receivables |
| (2) Increase in drawings          | Capital           |
| (3) Decrease in bank loan         | Bank loan         |
- (1) and (2) only
  - (1) and (3) only
  - (2) and (3) only
  - (1), (2) and (3)
17. The value of a dollar received today is \_\_\_\_\_ that of a dollar received in the future, because \_\_\_\_\_.
- higher than; the dollar received today can be invested
  - equal to; both of them have the same purchasing power
  - lower than; the purchasing power of money increases in times of inflation
  - None of the above.

18. Why is the review of resources available included as a step of planning?
- A. An enterprise can take it as a criterion to assess its performance.
  - B. The management can understand the strengths and weaknesses of the enterprise.
  - C. Adequate resources are favourable for long-term plans.
  - D. The first step of organising is to arrange the allocation of resources.
19. Which of the following is the function of an organisation chart?
- (1) To show the results of resources allocation.
  - (2) To establish the relationship between superiors and subordinates.
  - (3) To reflect the status of different employees.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)
20. Little Star Company is a subsidiary of the Star Group. According to the decision of Ms. Ho, the \_\_\_\_\_ department should \_\_\_\_\_.
- A. human resources . . . . . hire more experienced employees
  - B. operations . . . . . search for raw materials with lower price
  - C. marketing . . . . . build a central inventory management system
  - D. financial . . . . . raise capital for the new business
21. When the market changes, which of the following are the possible reasons that the SMEs can response promptly?
- (1) Only a few managers have the right to make decisions.
  - (2) The SMEs concentrate on local business only.
  - (3) The top management can give command to the basic level staff directly.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)

22. The following are the interest rates provided by two banks:

Bank A: Annual interest rate of 7%, compounded yearly

Bank B: Annual interest rate of 6%, compounded half-yearly

In which bank can the deposit saved earn a higher effective rate of return?

- A. Bank A
- B. Bank B
- C. Both banks provide the same effective rate of return
- D. There is insufficient information to calculate

23. What is the main purpose of preparing a trial balance?

- A. Assess whether there is insufficient capital to run the business
- B. Assess the non-financial factors of the business
- C. Calculate the net profit for the year
- D. Check the arithmetical accuracy of bookkeeping entries

24. Which of the following information is not provided in financial statements?

- A. Profitability
- B. Liquidity
- C. Organization structure
- D. Business worth

25. For the year ended 31 March 2017, the cost of goods sold of a firm was \$360 000. The gross profit ratio and net profit ratio were 55% and 20% respectively.

What is the amount of gross profit of the firm for the year ended 31 March 2017?

- A. \$162 000
- B. \$198 000
- C. \$440 000
- D. \$800 000

26. If Mary wants to buy a \_\_\_\_\_ and she does not have enough cash, she should choose to use a \_\_\_\_\_.
- A. handbag ..... personal loan
  - B. shop ..... bank overdraft
  - C. residential unit ..... credit card
  - D. private car ..... personal loan
27. Disney announced to prohibit smoking in all its movies, showing \_\_\_\_\_.
- A. it takes up the social responsibility to the Government as it introduces the policy according to the law
  - B. it emphasizes on business ethics and strives to establish a positive corporate image
  - C. it takes up the social responsibility to the shareholders as it prioritises the interest of the shareholders
  - D. it complies with business ethics as it formulates rules according to the law
28. Which of the following is a right of a share investor?
- A. Understand the terms of a financial services contract before signing it.
  - B. Take up the consequence and risk of investment.
  - C. Check the transaction of the investment account regularly.
  - D. Receive information about the performance of an investment product regularly.
29. Which of the following statements about an investor's responsibilities are correct?
- (1) Investors should invest according to their financial ability.
  - (2) Investors should allow a broker to trade on his / her account.
  - (3) Investors should read the transaction documents carefully.
- A. (1) and (2) only
  - B. (1) and (3) only
  - C. (2) and (3) only
  - D. (1), (2) and (3)



30. The flight attendants of M Airline carried out a strike as they are not satisfied with their salaries. The share price of the company dropped. It is a/ an \_\_\_\_\_ factor affecting share price.
- A. internal
  - B. economic
  - C. political
  - D. industrial

END OF SECTION A

**SECTION B (30 marks)**

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

1. Bird Ltd is a multinational corporation (MNC). The headquarter is in Australia. Fish Ltd is a small and medium enterprise (SME) in Hong Kong. In order to enter the Hong Kong market, Bird Ltd and Fish Ltd formed a joint venture, Animal Limited.
  - (a) State two reasons why Bird Ltd prefers to form a joint venture instead of entering the Hong Kong market itself. (4 marks)
  - (b) State the importance of SME to large companies in Hong Kong. (2 marks)
  
2. For each of the situations described below, state the accounting principle or concept that has been violated and give a brief explanation.
  - (a) Wilson is an agent of tutors for secondary students. On 30 December 2017, Wilson helped Albert hire a tutor for his son and charged him an agency fee of \$1 000. The agency fee was received in January 2018. Wilson did not include it in its income statement for the year ended 31 December 2017. (3 marks)
  - (b) On 1 November 2017, a hotel purchases a piano at \$120 000. On 31 December 2017, the manager believed that the market value of this piano for \$170 000. As a result, the piano was shown at a value of \$170 000 in the statement of financial position as at 31 December 2017. (3 marks)
  
3. Winnie Poon decides to use her savings of \$500 000 into an investment for 3 years. She is offered different investment plans as follows:

	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>
Rate of return	<ul style="list-style-type: none"><li>• 5% for each of the first two years</li><li>• 10% for the third year</li><li>• Compounded yearly</li></ul>	6.5% per annum, compounded yearly	20% for 3 years

Calculate the amount Winnie Poon will get back after three years and state which plan should be chosen. (4 marks)

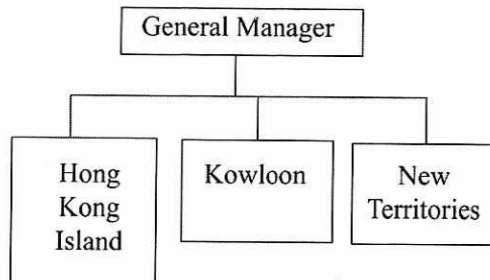
4. List two types of stakeholders of a café and explain how the company can fulfill its social responsibilities to each of them. (4 marks)

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

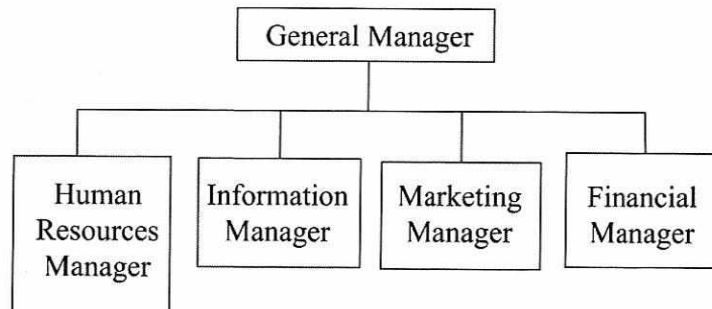
**Based on the following information, answer either Question 5 or 6.**

Company A and Company B are wholesale businesses selling organics food. Their organization charts are as follows:

**Company A**



**Company B**



The following ratios were obtained on 31 December 2017:

	<b>Company A</b>	<b>Company B</b>
Current ratio	1.5:1	3.4:1
Quick ratio	0.7:1	1.1:1
Gross profit ratio	50%	40%
Net profit ratio	20%	25%

**Answer ONE question.**

5. (a) State the form of departmentalization adopted by the two companies. (2 marks)

In Company A, a clerk is recruited to assist the managers of both Hong Kong Island and New Territories.

- (b) State the principle of effective management being violated. (1 mark)
- (c) Suggest one problem that might arise when the principle in (b) is violated. (2 marks)
- (d) Compare and comment on the liquidity position of Company A and Company B. (5 marks)

(Total: 10 marks)

6. (a) Which department of Company B should be responsible for handling customers' complaints? Explain one main role of this department in the company. (2 marks)

The financial manager always consults his subordinates before making any decisions.

- (b) State the leadership style of the financial manager. Also, state one advantage of adopting this leadership style. (3 marks)
- (c) Compare and comment on the profitability of Company A and Company B. (5 marks)

(Total: 10 marks)

**END OF PAPER**

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**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**  
**PAPER 2B**  
**BUSINESS MANAGEMENT MODULE**

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

**INSTRUCTIONS**

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

**SECTION A (24 marks)**

Answer **ALL** questions in this section.

1. Explain with two examples how the reference groups affect the consumer's decision during the purchase of tablet computer. (4 marks)
  
2. Many foreign manufacturers will distribute their products in Hong Kong through local agents. State two advantages of this distribution channel. (4 marks)
  
3. CS cosmetics company releases the following data in its annual general meeting:

	Current ratio	Quick ratio
CS company	12:1	3:1
Industrial norms	5:1	1.5:1

- (a) Comment the liquidity of CS company. (4 marks)
  - (b) State one limitation of using the above method to assess business performance. (2 marks)
- 
4. Give two reasons to explain why some technology start-ups prefer employing external candidates rather than internal candidate when they open new positions. (4 marks)
  
  5. How can an ice cream shop adopt risk reduction strategies to cope with the risks arising from its operation? Describe three of these methods. (6 marks)

**SECTION B** (36 marks)

Answer **ALL** questions in this section.

6. Shared Wheels Company Limited is a newly established local corporation which is the first in Hong Kong to operate bicycle-sharing business. Local citizens can rent a "Shared Wheels' bicycle" by simply downloading the application of Shared Wheels onto their smartphones, completing a registration process and paying a deposit of \$500.

Shared Wheels' bicycles are popular because of their cheap rent and the absence of specific renting and returning locations. The deposits paid by registered users provide the company a handsome amount of operation capital. For the moment Shared Wheels provide their service mainly in the New Territories. In a meeting, the CEO of the company set a future goal of "expanding business to all over Hong Kong".

Regarding the company's future development, managers from all departments hold different opinions towards the use of company resources. Mr. Che, the Financial Manager, suggested that reinforcing budgetary control in the company is necessary for a better future.

Ms Mo, the Operation Manager, however, noted, "Now there're already two companies running bicycle-sharing business in the market with services and charges similar to ours. We should reset our competitive advantages."

"I think the number of costumers is the most important, so we should allocate more resources on customer relationship management." said Mr. Ma, the Marketing Manager.

- (a) What is working capital? State the importance of holding a suitable amount of working capital by Shared Wheels. (2 marks)
- (b) What are the possible factors affecting Shared Wheels to implement its marketing management strategy? (2 marks)
- (c) Why can a budgetary control result in a better development of Shared Wheels? Explain with two reasons. (4 marks)
- (d) Describe two ways that Shared Wheels can highlight its competitive advantages. (4 marks)
- (e) Give three examples to explain how Shared Wheels can adopt information management to improve the customer relationship. (6 marks)

(Total: 18 marks)

7. Leia runs a small-scale laundry in a public housing estate in Shatin. Over the past decade since the open of business, the laundry has been very popular among residents of that housing estate. During the time when weather changes with season every year, a great number of customers overload the laundry. Leia spends doubled time than usual to finish the washing for returning the clothes to her customers.

Therefore, Leia plans to acquire a washing machine of the latest model to replace the old machines, so as to enhance washing efficiency. However, her friend Gordon suggests her to outsource part of the washing jobs to laundry workshops.

In addition, the washing powder supplier has recently shortened the period of cash discount for Leia's laundry. She wonders if she should continuously accept the supplier's cash discount.

- (a) Apart from acquiring a new machine or outsourcing jobs, suggest two ways to solve the operation problem which will appear in Leia's laundry during the time when weather changes according to one of the characteristics of services. (6 marks)
- (b) Comparing to Leia's plan, state and explain one advantage and one disadvantage of Gordon's suggestion. (4 marks)
- (c) In the decision on whether Leia accepts the washing powder supplier's cash discount, what possible factors should she consider? Explain two of them. (4 marks)
- (d) What social responsibilities to the community can Leia's laundry fulfill? List two of them. (4marks)

(Total: 18 marks)



**SECTION C (20 marks)**

Answer **ONE** question in this section.

8. An airline is preparing a marketing campaign on its new route.
- (a) Describe the procedures of implementing this marketing campaign. (12 marks)
  - (b) With reference to McGregor's Theory X and Theory Y, describe four methods that the management of the airline can manage the cabin attendants by applying Theory X. (8 marks)

(Total: 20 marks)

9. A department store will set up its own fleet to provide customers with delivery services. Therefore, the department store is planning to purchase trucks.
- (a) Explain the pros and cons of the department store to purchase trucks by short-term financing. (10 marks)
  - (b) Describe the department store's decision-making process of purchasing the trucks. (10 marks)

(Total: 20 marks)

**END OF PAPER**

## B4b Paper 1

### Section A

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

1. Answer: A

Net sales are the net amount of sales over returns inwards.

2. Answer: B.

A is incorrect. Both sole proprietor and partner are not independent legal entities.

B is correct. When the restaurant is turned from sole proprietorship to partnership, Mr. Chan can invite more partners to invest into the company, so it can raise more capitals.

C is incorrect. The profits tax rate of sole proprietorship and partnership is higher.

D is incorrect. As there are more than one person in the partnership, the time taken in decision-making is not necessarily shorter than sole proprietorship.

3. Answer: A

(1) w:  $\$250\,000 + 10\% \times (30\% - 10\%) = \$500\,000$

(2) w:  $\$250\,000 + 10\% \times 70\% = \$1\,750\,000$

(3) No information is provided.

4. Answer: B.

(1) is correct. Customers may lose confidence in the company's products or services when the company does not fulfill social responsibilities. The reputation of company will be negatively affected.

(2) is incorrect. Not fulfilling social responsibilities does not necessarily mean breaking the law, so it may not face legal sanctions.

(3) is correct. Investors may refuse to buy the shares of the companies which does not fulfill social responsibilities, making it more difficult for the companies to raise capital.

5. Answer: C.

Financial management allows manager to have a good understanding on company's capability in bearing the rental expenses. Information management allows manager to access information on leasing and rent in the district. For operations management, it only involves the choice of location and is not related to the negotiation on the rental fee.

6. Answer: D.

A is incorrect. The higher the amount of outstanding debt, the lower the personal credit rating.

B is incorrect. Bankruptcy records will be kept in the credit report for 8 years, causing a negative effect on the credit rating.

C is incorrect. The more frequent in applying loan recently, the more frequent one's credit report will be checked by other institution, causing a poorer credit rating.

D is correct. Personal income will not be considered in personal credit rating.

7. Answer: A

w:  $\text{Current liabilities} = \$72\,000 \div 1.8 = 40\,000$

$\text{Inventory} = 72\,000 - 72\,000 \div 1.8 \times 1.5 = \$12\,000$

8. Answer: D

A is incorrect. Labour force of a region decreases in size due to aging population. This is a factor discouraging enterprises to develop business in a region.

B is incorrect. Rising education level is a socio-cultural factor attracting enterprises to develop business in a region.

C is incorrect. When the younger generation is more conscious of health, their living style may attract enterprises to sell healthy products in the region.

D is correct. Air quality is a physical factor affecting business decision.

9. Answer: B

(3) is correct. It measures the profitability of a company.

10. Answer: A

w:

$\text{Assets} = \text{Capital} - \text{Liabilities}$   
 $= \$432\,000 - (150\,000 + 90\,200)$   
 $= \$191\,800$

Current assets

$= \text{Assets} - \text{Non-current assets}$   
 $= \$191\,800 - 168\,000$   
 $= \$23\,800$

11. Answer: B

When more franchisees join, Hai Fook Tong can control the market rapidly,

12. Answer: B

Franchisor can hardly control its franchisees. For example, the franchisees of Hai Fook Tong sold non-Hai Fook Tong products for a profit. If the quality of these products was low, the reputation of Hai Fook Tong would be damaged.

13. Answer: D

With well planning, the potential crisis and business opportunity should be estimated and deployed accordingly, the enterprise can then react promptly.

14. Answer: B

A is incorrect. The practise of division of labour will decrease product diversification.

B is correct. As employees will concentrate on a particular process of work and become more familiar with it, productivity can be raised.

C is incorrect. When division of labour is practised, workers have to work on a particular process repeatedly. The work is dull and division of labour cannot increase the job satisfaction of workers.

D is incorrect. When division of labour is practised, the production is divided into several processes and conducted by workers in different departments. The interdependence among different departments is increased. However, when one process is delayed, the whole production process will be affected. It is a disadvantage of practising division of labour.

15. Answer: D

16. Answer: B

(2) is incorrect. Drawings account should be debited.

17. Answer: A

A is correct. According to the concept of "Time Value of Money", the dollar received today can be invested and earn interest, so more than one dollar can be yielded in the future.

B is incorrect. Whether they have the same purchasing power depends on the inflation rate.

C is incorrect. The purchasing power of money decreases during inflation.

18. Answer: B

A is incorrect. The review of resources available can only assist the determination of goal, but it is not the criterion to assess performance.

B is correct. The type and quantity of resources possessed by the enterprise can reflect its strengths and weaknesses. The management should understand the strengths and weaknesses of the enterprise, so as to develop a plan that can achieve its goal.

C is incorrect. Even if it is a medium or short-term plan, the review of resources available should be included.

D is incorrect. The arrangement of the allocation of resources is one of the steps of planning.

19. Answers: D

(1) is correct. An organisation chart can show the scale of each department, which is the allocation of human resources.

(2) is correct. An organisation chart can show the superior that each employee should report to.

(3) is correct. An organisation chart can show the position of each employee within various departments.

20. Answer: B

A is incorrect. Recruiting is the job duty of the human resources department. However, it does not meet the goal of cutting expenses.

B is correct. Searching for raw materials with lower price is the job duty of the operations department. Also, it can achieve the goal of cutting expenses.

C is incorrect. Building a central inventory management system can achieve the goal of cutting expenses. However, it is the job duty of operations department.

D is incorrect. Raising capital is the job duty of the financial department. However, it is unrelated to the goal of cutting expenses.

21. Answer: B

(1) is correct. The size of the SMEs is relatively small. The management can reach consensus on contingency plans easily because there are only a few managers.

(2) is incorrect. It is not necessary for SMEs to concentrate on local business only.

(3) is correct. As the organisation structure of the SMEs is relatively simple. The top management can give command to the basic-level staff directly.

22. Answer: A

Bank A's effective annual rate = 7%

Bank B's effective annual rate

$$= [1 + (6\% / 2)]^2 - 1$$

$$= 6.09\%$$

Thus, saving the deposit in Bank A can have a higher effective rate of return.

23. Answer: D

C is incorrect. It is the purpose of an income statement.

24. Answer: C

25. Answer: C

w:

Gross profit

$$= \text{Sales} \times 55\%$$

$$= (\text{Gross profit} + \text{Cost of goods sold}) \times 55\%$$

∴ Gross profit

$$= 0.55 \text{ Cost of goods sold} = 0.45$$

$$= 0.55 \times 360\,000 = 0.45$$

$$= \$440\,000$$

26. Answer: D

A is incorrect. Personal loan can be used on goods that is expensive and with a specific purpose. The price of a handbag is not high, people cannot apply for a personal loan to buy a handbag.

B is incorrect. The expenditure of buying a shop is high, which cannot be settled by bank overdraft.

C is incorrect. A credit card is suitable for payment of products with a small amount. Generally, the expenditure of buying a residential unit exceeds the credit limit of a credit card.

D is correct. A private car is expensive, so it should be purchased by non-revolving credit. Amount and repayment period that suit oneself should be chosen, so as to avoid heavy interest burden caused by delayed payment.

27. Answer: B

A and D are incorrect. There is no legislation to prohibit smoking in movies.

B is correct. To prohibit smoking in movies can show its care to the youth, it is an act fulfilling business ethics, and thus promoting positive corporate image.

C is incorrect. To prohibit smoking in movies is not an act of taking social responsibility to the shareholders.

28. Answer: D

A, B and C are incorrect. These are responsibilities of share investors.

D is correct. A share investor has the right to be informed the performance of an investment product regularly.

29. Answer: B

(2) is incorrect. Investors should not allow anyone (including brokers) to trade on his / her account.

30. Answer: A

A is correct. Internal factors affecting share prices refer to news relating to the current or future profitability, dividend policy, operating risk and other news affecting the company. The strike of employees of M Airline is an internal factor affecting the share price of M Airline.

## Section B

1.(a)

Reasons:

- Fish Ltd is more familiar with local market.
- Risk and capital can be shared among the partners.

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

(b)

SMEs provide complimentary services or products to large companies.(2 marks)

2.(a)

The accrual concept has been violated. (1 marks)

The accrual concept states that revenue and expenses should be recognized in the period when they occurred, and not when they are received or paid. (1 marks)

As the service was provided in 2017, the agency fee \$1 000 should be included in the income statement for the year ended 31 December 2017. (1 marks)

(b)

The historical cost concept has been violated. (1 marks)

The historical cost concept states that assets should be recorded at their original acquisition cost. (1 marks)

Therefore, the piano should be valued at \$120 000. (1 marks)

3.

Plan A

$$= \$500\,000 \times (1+5\%)^2 \times (1+10\%)$$

$$= \$606\,375 \text{ (1 mark)}$$

Plan B

$$= \$500\,000 \times (1+7\%)^3$$

$$= \$612\,521.5 \text{ (1 mark)}$$

Plan C

$$= \$500\,000 \times 1.2$$

$$= \$600\,000 \text{ (1 mark)}$$

Therefore, Plan B should be chosen. (1 mark)

4.

Any three @ 2 marks each (1 mark for stakeholder + 1 mark for social responsibility)

- Employees: to provide health and safety working environment
- Customers: to provide hygiene and safety food
- Bank / Creditors / Suppliers: to make payment promptly
- The government: to obey the laws / to file tax honestly and pay tax and on time

5.(a)

Company A: By location (1 mark)

Company B: By function (1 mark)

(b)

Unity of command (1 mark)

(c)

Problems:

- contradictory instructions will cause confusion to the subordinates
- unclear chain-command / line of authority will cause conflicts between the managers

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

(d)

- The quick ratio of Company A is less than 1, indicating that its quick assets may not be able to meet the current liabilities when fall due. (2 marks)
- The current ratio of Company B is far higher than its quick ratio, indicating that inventory is piled up. (2 marks)
- As both current ratio and quick ratio of Company B are higher than those of Company A, Company B has a better liquidity position. (1 mark)

6.(a)

Marketing department (1 mark)

To satisfy customers' need profitably (1 mark)

(b)

Democratic leadership (1 mark)

Advantage:

- enhance staff morale
- better decision making

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

(c)

- The gross profit ratio of Company A is higher than that of Company B. It indicates that Company A has a better control over its cost of goods sold. (2 marks)
- The net profit ratio of Company B is higher than that of Company A. It indicates that Company B has better control over its operating expenses. (2 marks) Also, it indicates that Company B has a better profitability. (1 mark)

**B4b Paper 2B**

**Section A**

1.  
Reference group
- Direct reference groups include family and friends. Consumer will consider their experience of using tablet computer in order to choose a suitable tablet computer. (2 marks)
  - Indirect reference groups include the spokesperson tablet's brand. When consumer chooses a tablet computer, he may prefer the brand with his favorite spokesperson. (2 marks)
2.  
Advantages:
- Hong Kong agents are more familiar with the local market than foreign manufacturers, and thus they can increase the efficiency of their sales operations in Hong Kong.
  - The agents' revenue is the commission on the sales of products. Hence, the agents have incentive to boost the sales for more commission.
- (2 marks for each relevant advantage, max. 4 marks)
- 3.(a)  
CS company's current ratio and quick ratio are higher than the industrial norms. It shows that its ability to repay short-term debt is higher than the industrial norms. (2 marks)
- However, comparing to the industrial norms, CS company is holding too many liquid assets. It shows that it does not make good use of the company's assets to make higher profits. (2 marks)
- (b)  
Limitation:
- Even in the same industry, the operating mode of each company is different. The data may not reflect the actual situation.
  - Some factors are not quantifiable which cannot be reflected in the data. Hence, the data may not reflect the actual situation.
- (2 marks for each relevant limitation, max. 2 marks)
4.  
Reasons:
- The companies want to promote innovation to facilitate the development through employing external candidates.
  - The technology start-ups will grow and develop rapidly. Hence, internal candidates are unable to fill up all vacancies.
  - There is no suitable internal staff to take up the new positions, and thus they must employ external candidates.
- (2 marks for each relevant reason, max. 4 marks)

5.  
Risk reduction strategies:
- Provide training to staff, such as providing clear guidelines and procedures of handling ice cream, so as to avoid food poisoning caused by improper handling of ice cream.
  - The ice cream shop should purchase the raw materials from reputable suppliers, so as to avoid using defective raw materials to produce defective products.
  - The ice cream shop must check the ice cream machines regularly, so as to avoid the deterioration of ice cream due to equipment problems.
- (2 marks for each relevant strategy, max. 6 marks)

**Section B**

- 6.(a)  
Working capital is the difference between current assets and current liabilities of the enterprise. (1 mark)
- Holding a suitable amount of working capital will enable the enterprise to have sufficient financial resources to pay short-term debt and support its daily operations. (1 mark)
- (b)  
Factors:
- Government policy: If the government regulates the bicycle-sharing market, it will limit the development space for Shared Wheels.
  - The completeness of marketing plan: If Shared Wheels has a detailed plan, its staff can follow the steps to implement.
  - Resources allocation: To complete a marketing plan, company resources are required to be appropriately allocated.
- (1 mark for each relevant factor, max. 2 marks)
- (c)  
Usages of budgetary control:
- Basis for control: Budgetary control can help the Shared Wheels to discover the potential problems or opportunities. Hence, it can set up suitable measures in advance.
  - Basis for continuous improvement: Shared Wheels can assess the performance of different departments through the budgetary control. Hence, the management will understand the way to improve the company.
  - Basis for coordination: During the implementation of budgetary control, managers and subordinates and all departments of the company must communicate. This can consolidate the departments in Shared Wheels and enhance the efficiency.
- (2 marks for each relevant usage, max. 4 marks)

- (d)  
Competitive advantages:
- Shared Wheels can create a linkage between its services and specific customers by image differentiation. For example, it can create a professional image by using professional bicycles to differentiate their image from the others.
  - Shared Wheels can improve the quality of service, for example, by providing more support services after renting bicycles.
  - Shared Wheels can provide training to the staff to raise their ability on solving problem for customers. Hence, the customers will believe that the service of Shared Wheels is better than the others.
- (2 marks for each relevant competitive advantage, max. 4 marks)

- (e)  
Examples:
- Shared Wheels can collect customer information through mobile apps, and then provide them the latest company information regularly to maintain the connection. For example, Shared Wheels can send the information of promotion and new services to customers by monthly email.
  - Shared Wheels collects and analyses customers' consumption habits through mobile apps to improve the services to satisfy the customers' need. For example, Shared Wheels can strengthen the services in the district where the customers rent the bicycle frequently.
  - Shared Wheels can handle customers' complaints through the mobile apps. For example, Shared Wheels can add a function of instant responses into the apps, hence the customers' problem can be solved immediately.
- (2 marks for each relevant example, max. 6 marks)

- 7.(a)  
This is because of the perishability of services. The laundry cannot provide laundry services in advance or store the laundry for customers picking up later. (2 marks)
- Leia can charge a higher fee during the peak season, shifting the demand to non-peak season. (2 marks)
- Leia can hire more temporary staff during peak season and request the staff to work overtime. The temporarily increase in the supply of services can cope with the huge laundry load. (2 marks)

(b)

Advantage of outsourcing: Laundry workshops specialise in laundry services, so their average cost is lower under mass production. Comparing with the cost of replacing new washing machine and also the maintenance costs, the cost of outsourcing may be lower. (2 marks)

Disadvantage of outsourcing: Leia cannot control the service quality of outsourced companies. Hence, the customers may feel dissatisfied if the service quality is poor. (2 marks)

(c)

Factors for accepting cash discount:

- The cash status of the laundry: If Leia accepts the cash discount, the laundry is required to pay their debts early. It may result in a negative impact on the laundry's cash status, affecting its daily operation. (2 marks)
- The opportunity cost of holding cash: In addition to early repayment, the cash held in the laundry can also be invested in other valuable investments. Hence, Leia should consider the return of cash when it is invested in other projects during this period. (2 marks)

(d)

Social responsibilities to the community:

- Reduce the impact on nearby residents during operation, such as preventing pollution caused by sewage, heat and noise from affecting residents.
- Sponsor the activities of residents in the area to repay the community.

(2 marks for each relevant social responsibility, max. 4 marks)

## Section C

8.(a)

Procedures:

1. The airline should examine the current performance of its business and understand the evaluation of target customers in order to grasp the position of the enterprise in the market.
2. Perform SWOT analysis. The airline should examine its internal strengths and weaknesses, and also analyse the opportunities and threats during the change in market environment.
3. Set marketing goals. The airline should set a measurable, concrete, challenging and achievable goal, such as increasing their share of the airline market or boosting airline profits.
4. The airline is required to conduct market research and analyse the trend of the aviation market. Then, the airline should conduct market segmentation and choose the most appropriate market segment.
5. Set marketing strategy. The airline should choose the appropriate marketing strategy according to the competition in the market.

6. Develop marketing plan. The airline must develop a suitable marketing mix and anticipate the resources and effectiveness of the marketing plan.

(2 marks for each relevant procedure, max. 12 marks)

(b)

Methods:

- Under the X theory, it is assumed that cabin attendants do not like and will refuse to work, so the managers must closely monitor their job.
  - Cabin attendants work only for money. The airline should provide them with higher monetary remuneration.
  - Managers are required to provide detailed instructions. It is because cabin attendants lack working incentive and they will only fulfil the basic requirement.
  - Cabin attendants pursue job security. The airline can provide them a longer contract.
- (2 marks for each relevant method, max. 8 marks)

9.(a)

Advantages:

- As the loan period of short-term financing is shorter, the department store should pay less interest, hence the financing cost is lower.
- The procedure of short-term financing is relatively simple, so the department store can get funding in a shorter period of time.
- There are more institutions providing short-term loans, hence the department store can have more choices.

Disadvantages:

- Short-term financing loans are usually not high. The department store may not be able to have enough cash to purchase trucks.
- The loan period of short-term financing is shorter. The department store may not be able to obtain another loan after the loan expires. It may affect its capital arrangement.
- Interest rates on short-term loans are fluctuated. The department store has to face a larger interest rate risk.

(2 marks for each relevant advantage or disadvantage, max. 10 marks)

(At least one advantage and one disadvantage)

(b)

Process of purchasing:

1. Need recognition. The department store has to provide delivery services, triggering the needs.
2. When the department store recognises the needs, it will analyse the number of trucks required to be bought by describing the needs and product characteristics.
3. The department store will search for the suppliers who can meet its needs and assist them in problem solving.
4. The department store will evaluate different models of trucks and measure the solutions offered by different suppliers such as price, service quality, maintenance and after-sales service.

5. The department store will evaluate the service of the truck supplier and review whether the supplier's products and services meet the expectations. If the department store is satisfied with the service, the same supplier will be selected next time.

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