

BAFSSCHOOL OF THE HONG KONG ECONOMIC TIMES
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION
MOCK PAPER 2019

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.

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 section. Answer ALL questions. Choose the best answer for each question.

1. Which of the following situations violates the going concern concept?
 - A. The bookkeeper recorded owner's property in the books.
 - B. A company received a bill for government rates for the upcoming accounting year. The bookkeeper recorded it as an expense in this year.
 - C. The bookkeeper recorded the motor van at market value.
 - D. A company decides to liquidate after the date of the financial statements. All assets were recorded at cost.

2. Which of the following should be recorded as revenue of a firm?
 - (1) Received a cash refund upon return of goods
 - (2) Office rent received and paid to owner's personal bank account
 - (3) Inventory brought in by the owner
 - A. (1) only
 - B. (2) only
 - C. (1) and (3) only
 - D. (2) and (3) only

3. _____ is the process of monitoring performance and taking actions in order to achieve desired results.
 - A. Controlling
 - B. Leading
 - C. Organising
 - D. Planning

4. Which of the following is the example of a real account?
 - A. Property
 - B. Discounts allowed
 - C. Wages
 - D. Rental income

5. Which of the following tasks are performed by the department of information management?

- (1) Creating information
- (2) Presenting information
- (3) Processing information
- (4) Maintaining information

- A. (1), (2) and (3) only
- B. (1), (3), and (4) only
- C. (2), (3) and (4) only
- D. All of the above

6. Chan and Chow are retailers in the same industry. Their financial information for the year 2018 is shown below:

	Chan	Chow
Current assets	\$1 500 000	\$800 000
Current ratio	4:1	5:1
Quick ratio	2:1	3.8:1

Based on the above information, Chan has _____.

- (1) more current liabilities
- (2) more inventory
- (3) better liquidity position

- 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 kinds of partner has/have unlimited liability to a partnership?

- (1) General partner
- (2) Limited partner
- (3) Nominal partner

- A. (1) only.
- B. (1) and (3)
- C. (2) and (3) only
- D. All of the above

8. Which of the following statements about the users of financial statements is not correct?
- A. The government uses financial statements to assess the company's ability to repay tax.
 - B. The employees use financial statements to assess the company's ability to increase sales.
 - C. The managers use financial statements to formulate company's development strategies.
 - D. The suppliers use financial statements to assess the repayment ability of the company.

9. Which of the following should be recorded on the debit side of the respective accounts?

	<u>Account</u>
(1) Increase in general expenses	General expense
(2) Decrease in bank loan	Bank loan
(3) Decrease in fixtures and fittings	Fixtures and fittings

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

10. What is the function of financial management?

- A. Providing capital to the company
- B. Hiring employees
- C. Budget planning
- D. Inventory management

11. Which of the following investment tools is the most suitable for a fresh graduate who has limited amount of capital but desires for a satisfactory return?

- A. Insurance
- B. Stocks
- C. Fixed deposits
- D. Bonds

12. Which of the following is not a role of business in Hong Kong economy?

- A. Job creation
- B. Provision of raw materials to the foreign countries
- C. Source of income of the government
- D. Provision of service to mainland China

13. Which of the following are examples of a firm being socially responsible to consumers?

- (1) A factory does not create any pollution in production.
- (2) A bank sets up more branches for consumers in remote districts.
- (3) A café uses fair trade coffee beans.
- (4) A restaurant provides chairs and WiFi to consumers who are waiting outside.

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

14. Which of the following is the purpose of allowing trade discounts to customers?

- A. To encourage cash sales
- B. To encourage early repayments
- C. To attract bulk purchases
- D. To discourage return of goods

15. The following information relates to Miss Chan's firm in 2018:

	\$
Total revenue for the year 2018	140 000
Total expenses for the year 2018	69 000
Capital, as at 1 January 2018	810 600
Capital, as at 31 December 2018	725 000

Based on the above information, Miss Chan withdrew _____ from the firm during the year 2018.

- A. \$14 600
- B. \$71 000
- C. \$85 600
- D. \$156 600

16. Which of the following about an income statement is/are correct?
- (1) It shows the profitability of a business.
 - (2) Its preparation is based on cash receipts and cash payments only.
 - (3) Information is based on the owners' judgments.
- A. (1) only
 - B. (2) only
 - C. (1) and (2) only
 - D. (1) and (3) only
17. Which of the following is not a part of the control process?
- A. The company hires a manager to evaluate the performance of employees
 - B. The owner of the company fires his staff because of personal reason.
 - C. The board of directors decided to make a 5% sales growth in this year.
 - D. The company stops distributing plastic bags in order to reduce cost.
18. What is the disadvantage of Small and Medium Enterprises?
- A. Lack of customers
 - B. High market risks
 - C. Lack of economies of scale
 - D. Lower profit
19. Departmentalisation in a hospital is by _____.
- A. Function
 - B. Location
 - C. Price
 - D. Product
20. Which of the following is not a principle of effective management?
- A. Division of work
 - B. Management by objectives
 - C. SMART
 - D. Unity of Command

21. Which of the following is a non-revolving consumer credit?
- A. Instalment loan
 - B. Debenture
 - C. Credit Card
 - D. Cheque
22. A manager of a factory has found that a set of machine costs \$20,000. The machine will generate \$8000 every year in the coming 3 years. The annual interest rate is 6%. Should the manager buy this set of machine?
- A. Yes, because the NPV is positive.
 - B. Yes, because the NPV is large.
 - C. No, because the NPV is negative.
 - D. No, because the NPV is small.
23. Which of the following is the right of employees under the MPF system?
- A. Receiving contributions from their employers.
 - B. Stopping the scheme anytime.
 - C. Choosing the stocks to invest.
 - D. Postponing the date of contribution.
24. Which of the following shows the cooperation of Hong Kong and foreign economy?
- A. Asia-Pacific Economic Cooperation
 - B. Closer Economic Partnership Arrangement
 - C. Hong Kong has no limits on information and capital flow
 - D. Individual Visit Scheme
25. Which of the following is a favourable technological factor of Hong Kong?
- A. Hong Kong is at the GMT+8 Time Zone
 - B. There are diversified electronic payment methods
 - C. Hong Kong is an international financial centre
 - D. Hong Kong has a free flow of information
26. Since _____, Hong Kong has become a middleman between mainland China and different countries.
- A. Asia-Pacific Economic Cooperation was established in 1989
 - B. Hong Kong joined WTO in 1995
 - C. the Reform and Opening Up
 - D. the signing of Closer Economic Partnership Arrangement

27. What is the definition of management?
- A. Manipulation of subordinates.
 - B. Fulfilment of organisational objectives through people and other resources
 - C. Turning input into output.
 - D. Operation of a company with efficiency.
28. Which of the following statement about production is correct?
- A. Production in each sector is independent.
 - B. Primary production sector provides semi-finished goods.
 - C. The aim of production is to make profit only.
 - D. Tertiary production sector requires raw materials from primary production.
29. _____ is the ability to choose suitable goals and fulfil them.
- A. Division of labour
 - B. Effectiveness
 - C. Efficiency
 - D. Unity of Direction
30. Which of the following statements about a trial balance is/are correct?
- (1) It checks the arithmetical accuracy of double entry bookkeeping.
 - (2) It is a financial statement.
 - (3) It corrects errors.
- A. (1) only
 - B. (2) only
 - C. (1) and (2) only
 - D. (1), (2) and (3)

END OF SECTION A

SECTION B (30 marks)

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

1. Freda is a sole trader of a bakery. In recent years, sales increase rapidly. As Freda operates the bakery on her own, she wants to convert the business to a limited company so that the other owners can share her workload. However, a business consultant advises her to grant franchises for business expansion.

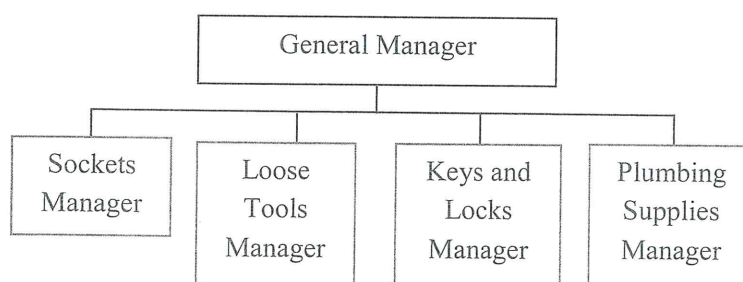
(a) If the business is converted to a limited company, must Freda's workload be shared with the other owners? Explain. (3 marks)

(b) Apart from business expansion, state two advantages of granting a franchise. (4 marks)

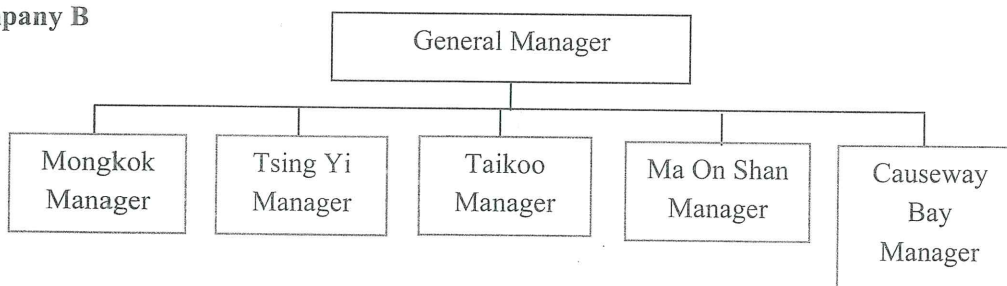
(Total: 7 marks)

2. Company A and Company B are retail businesses selling hardware. Their organisation charts are as follows:

Company A



Company B



(a) State the form of departmentalisation adopted by the two companies:

(i) Company A

(ii) Company B (2 marks)

(b) Apart from the forms of departmentalisation mentioned in (a), briefly describe the other form of departmentalisation that could be adopted by the two companies. (2 marks)

(c) Identify the span of control of the General Manager of Company A. (1 mark)

(Total: 5 marks)

3. Mr Lee is an owner of a wholesale business. He decides to invest his company funds in a plan as follows:

	<u>Invested amount</u>
Now	\$50 000
End of Year 1	\$100 000
End of Year 2	\$150 000

The rate of return of the investment is 5% per annum, compounded annually.

At the end of Year 3, Mr Lee will acquire a machine for packaging. The purchase price of the machine is \$340 000.

Will Mr Lee have enough money to pay for the machine at the end of Year 3? Show your supporting calculations. (3 marks)

4. In the books of a firm, the balance of Mary's account was \$89 000Dr. On 1 October 2018. The following transactions occurred in the month of October 2018:

2018

- Oct 1 Sold goods \$20 000 on credit to Mary, less 10% trade discount.
4 Mary returned goods with a list price of \$5 000 to the firm.
7 Sold goods \$30 000 on credit to Mary, less 20% trade discount.
10 Mary repaid \$46 000 by cheque to the firm, less \$1 700 discount.
20 Mary sent office furniture worth \$35 000 to the firm as a partially settlement of her account. The firm accepted it.

Prepare Mary's account for the month of October 2018 and balance it off on 31 October 2018.

(5 marks)

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

5. After graduating from university, Patrick is employed as an accountant in a trading firm. He decides to apply for a credit card.

(a) Explain one advantage and one disadvantage if Patrick uses a credit card for consumption. (4 marks)

(b) Suggest one of Patrick's current financial needs. (1 mark)

(c) In the office, Patrick comes across the following situations:

(i) The owner of a firm brought in his own private car worth \$250 000 to the business. On 31 December 2018, the market value of the car was \$80 000. Patrick does not know the amount to be shown on the statement of financial position.

(ii) The accounting manager asks Patrick to use the same accounting methods for inventory valuation.

For each of the above independent situations, explain to Patrick with an appropriate accounting principle or concept. (5 marks)

(Total: 10 marks)

6. Bobby is a marketing manager of a travel agency. He decides to launch a promotional campaign before Easter holiday.

(a) State one function of a marketing department. (1 mark)

(b) List two ways of how information management can support marketing department. (4 marks)

One of the marketing personnel suggests Bobby offer either trade discount and cash discount.

(c) Explain one purpose of offering trade discount and cash discount respectively. (4 marks)

(d) State one difference between recording trade discount and recording cash discount. (1 mark)

(Total: 10 marks)

END OF PAPER

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MOCK PAPER 2019

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. Illustrate three differences between long-term and short-term financing. (6 marks)

2. (a) Indicate two basic principle of cash management. (2 marks)
(b) According to the 5Cs of credit standard, give two situations that will give lower credit risk. (4 marks)

3. A company carries out surveys among the employees regularly. Give three uses of this internal communications programs. (6 marks)

4. Give three shortcomings of using observational research method for marketing research. (6 marks)

SECTION B (36 marks)

Answer ALL questions in this section.

5. The Census and Statistics Department projects that the problem of aging population in Hong Kong will become more and more serious. To seize this derived business opportunity, Wai, an elderly carer, started Wai's Elderly Health Product Centre which focuses on supplying retirees with wellness products.

Wai's Elderly Health Product Centre started running earlier this year. Wai and managers of each department were evaluating the operation of the Centre.

Fong, the financial manager, started with good news, "Before the Centre opened, we drafted a budget. And in its first half year of business, there is a favourable variance in the Centre's sales budget.

But Fong also raised concerns on stocking, "There is problem in our stock turnover. According to the sales record, we sell 100 boxes of black hair shampoo every month, while we order 120 boxes of it. The ordering cost is \$20,000 for each order, and the average holding cost of each box of shampoo is \$100 per month. I suggest the Centre adopts Economic Order Quantity to save holding cost.

Leung, the manager for human resources, spoke last, "There has been manpower shortage in the Centre. I predict that the problem will get worse."

- (a) (i) The financial manager prepares the budgets of Wai's Elderly Health Product Centre. Explain two purposes of it. (4 marks)
- (ii) List two possible causes that may lead to favorable variance of Wai's Elderly Health Product Centre. (2 marks)
- (b) (i) Using Economic Order Quantity, calculate the optimal order quantity (in boxes) for Wai's Elderly Health Product Centre. Show your calculations. (2 marks)
- (ii) According to the order quantity calculated in (b)(i), indicate which component of the inventory cost contributes to the reduction in the total inventory cost. Explain with reason. (2 marks)
- (c) Give three reasons of why the target market selected by Wai's Elderly Health Product Centre is desirable. (6 marks)
- (d) List two measures that Wai's Elderly Health Product Centre can use to relieve the labour shortage. (2 marks)

(Total: 18 marks)

6. In recent years, Hong Kong has been attacked by multiple typhoons that suspension of the airport and of landing and take-off of aircrafts. In a management meeting of Tomorrow Airline, the CEO Tom initiated a discussion on the improvement of arrangement during the suspension of air service.

Caroline, the marketing manager, said, "During the suspension, many passengers did not know clearly the flight arrangement. So, we received a lot of complaints on our service." However, Tom believed, "Despite the rising number of complaints, this is a chance for us to improve customer relationship."

Kacey, the manager for human resources, expressed, "Although we raised the allowance for working in adverse weather last year, many employees are still upset with the working arrangement." Tom responded, "We should publicly recognise dutiful employees who work in adverse weather to encourage them."

Oscar, the financial manager, said, "In the last few years, typhoons attack increasingly with fierce wind. So, the collateral loss increases every year." Tom replied, "We should prepare better for risk management."

At the end of the meeting, Tom asked each senior manager to submit a proposal on the abovementioned matters for deliberation in their next meeting.

- (a) (i) Why is severe weather an insurable risk? Explain with one reason. (2 marks)
- (ii) Besides purchasing insurance, suggest Tomorrow Airline two risk management strategies against severe weather. (4 marks)
- (b) Explain how Tomorrow Airline can increase the service quality of its employees with three properties of service. (6 marks)
- (c) Give one reason to explain how Tomorrow Airline can increase its sales on existing customers through improving Customer Relationship Management. (2 marks)
- (d) (i) Using the Maslow's Hierarchy of Needs Theory to explain why allowances cannot relieve the employees' dissatisfaction with working under severe weather. (2 marks)
- (ii) Using the Herzberg's Two-Factor Theory, explain why open compliment is more effective than providing allowances in encouraging employees to work. (2 marks)
- (Total: 18 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

7. Because of the opening Hong Kong-Zhuhai-Macao Bridge, chain daily necessities shops will set new branches in Tung Chung. Managers will evaluate the performance with accounting ratios.
- (a) Illustrate the benefits of the companies to select their branch managers through internal selection . (8 marks)
- (b) Using examples, explain which aspects of the branches' performance can be evaluated with accounting ratios. (12 marks)
(Total: 20 marks)
8. The functions of smartphones keep improving every day. Phones retail shops require frontline staff to receive training, in order to promote the latest smartphones to customers.
- (a) Explain the purposes of phones retail shops to provide training to their employees with examples . (8 marks)
- (b) Explain the steps of consumer decision-making process that consumers would go through for purchasing new smartphones. (12 marks)
(Total: 20 marks)

END OF PAPER

Paper 1

Section A

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

1. Answer: D

A is incorrect. It violates the business entity concept.

B is incorrect. It violates the accrual concept.

C is incorrect. It violates the historical cost concept.

2. Answer: B

(3) is incorrect. It is a capital introduction.

3. Answer: A

4. Answer: A

B and C are expenses while D is revenue. All of them are nominal accounts.

5. Answer: C

Information is collected, not created.

6. Answer: A

(1) is correct. Current liabilities

Chan: $\$1\,500\,000 \div 4 = \$375\,000$

Chow: $\$800\,000 \div 5 = \$160\,000$

(2) is correct. Inventory

Chan: $\$375\,000 \times (4-2) = \$750\,000$

Chow: $\$160\,000 \times (5-3.8) = \$192\,000$

(3) is incorrect. Chow has higher quick ratio.

7. Answer: A

8. Answer: B

Employees use financial statements to assess the wages level and job security of the company.

9. Answer: A

(3) is incorrect. Fixtures and fittings account should be credited.

10. Answer: C

A is incorrect. A financial manager only decides the source of financing instead of providing source of financing to the company.

11. Answer: B

12. Answer: B

Hong Kong provides professional services instead of raw materials to the foreign countries.

13. Answer: D

(1) is incorrect. It is socially responsible to the community instead of the consumers.

14. Answer: C

B is incorrect. It is the purpose of allowing cash discount.

15. Answer: D

w:

$\$810\,600 + (140\,000 - 69\,000) - 725\,000$

$= \$156\,600$

16. Answer: A

According to accrual concept, revenue and expenses should be recorded when they occurred, no matter whether cash is received or paid.

17. Answer: B

The owner fires his staff owing to personal reason but not to achieve desire results of the business.

18. Answer: C

A is incorrect. There may be plenty of consumers in the market for SMEs. The only problem they have is poor competitive position as successful businesses attract competitors. SMEs must try to stay one step ahead of the competition to remain successful.

19. Answer: A

20. Answer: C

SMART is an approach to set up goals in a good planning process

21. Answer: A

22. Answer: A

NPV

$= (\$8000/1.063 + \$8000/1.063 + \$8000/1.063$

$- \$20000)$

$= 1,384$

Since NPV is positive, the manager should buy the machine.

23. Answer: A

24. Answer: A

25. Answer: B

A is incorrect. It is a physical factor.

D is incorrect. It is a legal factor.

26. Answer: C

27. Answer: B

28. Answer: D

C is incorrect. The aim of production is to provide the goods and services that can satisfy people's needs.

29. Answer: B

30. Answer: A

Trial balance cannot correct any errors.

Section B

1.(a)

As the ownership and the management are separate in a limited company, the shareholders may not be involved in daily operation of business. (2 marks)
Therefore, it is not a must that Freda's workload will be shared with the other shareholders. (1 mark)

(b)

Advantages:

- Royalty can be received from franchisor regularly.
- Freda can focus on the overall business development.

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

2.(a)(i)

By product (1 mark)

(ii)

By location (1 mark)

(b)

By function: e.g. set up operations department, financial department and human resources department, etc. (2 marks)

(c)

4 (1 mark)

3.

Amount to be received at the end of Year 3

$= \$50\,000 \times (1+5\%)^3 + \$100\,000 \times (1+5\%)^2$

$+ \$150\,000 \times (1+5\%)$

$= \$325\,631.25$ (2 marks)

As the amount to be received at the end of Year 3 is lower than the purchase price of the machine, Mr Lee does not have enough money to pay for it. (1 mark)

4.

		Mary			
2018	\$	2018	\$		
(0.5) Oct 1	Balance b/f	89 000	Oct 4	Returns inwards \$5 000×90%	4 500 (1)
(0.5)	Sales \$20 000×90%	18 000	10	Bank	46 000 (0.5)
(0.5)	Sales \$30 000×80%	24 000		Discounts allowed	1 700 (0.5)
			20	Office furniture	35 000 (1)
			31	Balance c/f	43 800 (0.5)
		131 000			131 000
					(5)

5.(a)

Advantage:

- Pay later
- No need to carry large amounts of cash
- There may be privileged discounts.

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

Disadvantage:

- Personal data may be stolen.
- Some merchants may not accept credit cards.

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

(b)

Further education / personal consumption (1 mark)

(c)(i)

- Historical cost concept (1 mark)
- Assets should be recorded at their cost of acquisition (1 mark)
- Patrick should record \$250 000 as the cost of the car in the books (1 mark)

(ii)

- Consistency concept (1 mark)
- Accounting methods should be the same across years for comparison (1 mark)

6.(a)

Functions:

- formulating and evaluating marketing strategies
- implementing and monitoring marketing activities
- maintaining customer relations

(1 mark for each appropriate function, max. 1 mark)

(b)

Ways:

- storing market data
- collecting data from questionnaire surveys

(2 marks for each appropriate way, max. 4 mark)

(c)

- Trade discount: to encourage a bulk purchase (2 marks)
- Cash discount: to encourage prompt repayment (2 marks)

B4b Paper 2B

Section A

1.
Differences:
- Cost of long-term financing is generally higher than that of short-term, e.g. higher interest cost
 - Short-term financing is more flexible than long-term. Even the company does not need to raise capital before due, it still has to repay remaining interest.
 - It is riskier for a firm to rely on short-term financing. The repayment period of long-term financing is longer, the chance for the firm to be unable to repay is lower.
- (2 marks for each appropriate difference, max. 6 marks)

- 2.(a)
Basic principles:
- Accelerating cash inflows
 - Delaying cash outflows
 - Matching the timing and amount of cash inflows and outflows
- (1 mark for each appropriate principle, max. 2 marks)

- (b)
Situations:
- Character: the customer is willing to fulfill the responsibility for repaying the debts.
 - Capacity: the customer has higher paying ability
 - Capital: the customer has more capital
 - Collateral: the customer is willing to use more profitable assets as collateral.
 - Conditions: in a promising economic condition, the repaying ability of the customer is expected to be stable.
- (2 marks for each appropriate situation, max. 4 marks)

3.
Uses:
- The company can understand the satisfaction and working incentives of the employees to the company.
 - The company can provide a channel for the employees to express their opinions and dissatisfaction.
 - The company can prevent labour dispute, and solve the problems before they get worse.
- (2 marks for each appropriate use, max. 6 marks)

4.
Shortcomings:
- Findings may not reflect general cases.
 - Findings cannot be quantified and presented by statistics.
 - Observers cannot observe respondents' feelings and preferences.
 - Observers may have bias in their observations.
- (2 marks for each appropriate shortcoming, max. 6 marks)

Section B

- 5.(a)(i)
Purposes:
- Planning: Can set the directions and goals for Wai's, to make its future plans..
 - Coordinating: Wai's can use it as standard of allocating resources, in order to set the structure of the projects..
 - Leading: Wai's managers can give their subordinates clear and quantitative goals.
 - Control: Can use as a standard to evaluate performance, to help monitor the progress of the projects.
- (2 marks for each appropriate purpose, max. 4 marks)

- (ii)
Causes:
- The actual prices of health products are higher than the budgeted ones.
 - The actual sales of health products are higher than the budgeted ones.
 - Product mix: The actual proportion of health products with higher prices is higher than the budgeted ones. Leading to a higher actual sales.
- (1 marks for each appropriate cause, max. 2 marks)

(b)(i)
Optimal order quantity

$$= \sqrt{\frac{2 \times 100 \text{ boxes} \times \$20000}{\$100/\text{box}}}$$

= 200 boxes (2 marks)

OR

$$= \sqrt{\frac{2 \times 100 \text{ boxes} \times 12 \text{ months} \times \$20000}{\$100/\text{box} \times 12 \text{ months}}}$$

= 200 boxes (2 marks)

- (ii)
Ordering cost will decrease (1 mark), since the ordering times per year can decrease from 10 times to 6 times (1 mark).

- (c)
Reasons:
- The size of the elderly market is growing: because of aging population, the number of elderly is rising.
 - Elderly have lower bargaining power: Since the elderly value their health more. Their demand for health products lack elasticity.
 - The company know well about the elderly market: Wai is an elderly carer so he knows well about the demand in the elderly market.
- (2 marks for each appropriate reason, max. 6 marks)

- (d)
Measures:
- Hiring more full-time/part-time staff.

- Outsourcing the non-core work..
- (1 mark for each appropriate measure, max. 2 marks)

- 6.(a)(i)
Reasons:
- Severe weather is a pure risk, it only brings loss to the air company.
 - Air company cannot control the occurrence of severe weather.
 - The possibility of having severe weather can be assumed with the record of the observatory.
 - Days with severe weather every year are generally not many.
- (2 marks for each appropriate reason, max. 2 marks)

- (ii)
Risk management strategies:
- Risk reduction: Tomorrow Airline can reduce the number of flights in typhoon seasons.
 - Risk assumption: Tomorrow Airline can retain an amount of capital, for paying for the losses of the cancelation of flights..
- (2 marks for each appropriate strategy, max. 4 marks)

- (b)
Properties:
- Variability: Set the emergency guidelines during severe weather, e.g. unify in replying to the enquiries of customers.
 - Intangibility: Compete for higher ratings from the international rating organizations. Let the customers know that it has well planning for severe weather.
 - Perishability: Ensure there will be enough staff standing by, for the enquiries of the customers.
 - Inseparability: Using speakers, to let staff provide information to more customers at the same time.
- (2 marks for each appropriate property, max. 6 marks)

- (c)
Reasons:
- Tomorrow Airline can reply to complaints of the customers promptly, and provide effective solutions, to increase customer satisfaction.
- (2 marks for each appropriate reason, max. 2 marks)

- (d)(i)
According to Maslow's Hierarchy of Needs Theory, employees have different level of needs. If their physiological needs are satisfied, they will be motivated to satisfy higher level of needs. Therefore providing allowances may not necessarily satisfy their needs (2 marks).

- (ii)
According to Herzberg's Two-Factor Theory, providing allowances is a hygiene factor, it only

prevents employees from feeling dissatisfied. An open compliment is a motivator, it encourages employees to work hard (2 marks).

Section C

7.(a)

Benefits:

- Since the employees have chance to get promoted to managers, they will work hard, and the promoted staff will have larger satisfaction. So this can raise the morale of the staff.
- The top management can understand the past performance of the staff, and be more clear about their working abilities, so it will be easier to find suitable people.
- The new managers are familiar with the working process and culture of the shops, so they can adapt to the new position more quickly.
- Internal hiring is simpler than external hiring, the shops can save hiring cost.

(2 marks for each appropriate benefit, max. 8 marks)

(b)

Accounting ratios:

- Profitability ratios: to measure the profitability of the shops, e.g. gross profit ratio, net profit ratio, return on capital employed, etc..
- Liquidity ratios: to measure the shops' ability to repay their short-term liabilities when due, e.g. current ratio and quick ratio, etc.
- Solvency ratios: to measure the ability of the shops to repay their liabilities when due, e.g. gearing ratio, etc.
- Management efficiency ratios: to measure how efficiently the shops utilize their assets, e.g. inventory turnover, total asset turnover, etc

(3 marks for each appropriate aspect, max. 12 marks)

8.(a)

Purposes:

- Increase the productivity of frontline staff and shops: frontline staff can increase their knowledge about smartphones and their sales techniques. So productivity will increase, such as sales can rise.
- Promote the personal development of frontline staff: when frontline staff get the latest smartphones info, they can better develop their future career, such as getting higher sales volume.
- Raise the morale of frontline staff: training raise their morale, give them higher satisfaction, such as higher return and promoting chance..
- Promote the future development of the shops: the frontline staff getting latest info helps the future development of the shops, such as selling new smartphones.

(3 marks for each appropriate purpose, max. 8 marks)

(b)

Steps:

5. Need recognition: recognise the reason of wanting a new smartphone..
6. Information research: research different information through magazines, websites, etc. such as functions and prices..
7. Evaluation of alternatives: By comparing different models of smartphones, choose the most suitable one..
8. Purchase decision: Make purchase decision based on the evaluation results.
9. Post-purchase behaviour: evaluate if the purchased smartphones have met the expectations.

(3 marks for each appropriate step in correct order, max. 12 marks)