

Level 5 Exemplars

Paper 1B

SECTION B (40 marks)

1. (a) Many people are using credit cards to purchase goods and services. Explain two benefits for customers of using credit card. and safe (4 marks)

The first benefit is convenience. By using credit cards, customers can make bulk purchases without bring a large amount of cash with them. This is convenient for their shopping.

The second benefit is bonus and gifts received from credit card companies. When joining the credit card plans, if customers make purchases accumulated to a certain amount, they can receive bonus returns such as cash dollars and coupons.

- (b) Explain one reason why credit card companies are more willing to issue credit cards to applicants with good personal credit records. (2 marks)

Good personal credit records reflect high repayment ability of that applicant. Credit card companies can have higher chance to collect money back from applicants of good credit history which is reflected in credit records.

2. Ken owns a fast-food chain business with more than 50 outlets in Hong Kong. He is going to expand his business by offering delivery services all over Hong Kong. Wendy, a business consultant, recommends Ken to establish a telephone hotline centre in the Mainland to take orders from customers in Hong Kong and direct the Hong Kong outlets to deliver the meals.

Explain three types of external factors that would affect Ken's decision on whether to set up a telephone hotline centre in the Mainland. (6 marks)

The first type is economic factor. Ken needs to consider whether setting up a telephone hotline centre in Mainland involves a reasonable costs which can be covered by the revenue from offering delivery services. The second type is technological factor. Ken needs to consider whether Mainland has fast and well-constructed telephone communication network so the hotline centre can receive calls from customers in Hong Kong immediately for facilitating delivery services. The third type is social factor. Ken has to consider if the Mainland labour or workers can speak fluent Cantonese as they need to communicate with customers in Hong Kong.

3. For each of the independent situations described below, state the accounting principle or concept that has been violated and give a brief explanation.

(a) The owner of a firm, Mr Chan, bought a pearl necklace worth \$85 000 for his wife with a firm's cheque. The bookkeeper recorded the transaction as follows: (3 marks)

	Dr.	Cr.
	\$	\$
Sundry expenses	85 000	
Bank		85 000

Business entity concept is violated. It states that an entity is treated separately from its owner. Only transactions related to the business should be recorded in the books. In this case, the spending on necklace is Mr Chan's personal expense. It should be recorded as drawings but not sundry expenses.

(b) The owner of a firm, Miss Lee, bought a notebook computer of \$12 000 for office use. She heard from the dealer that its market value at that time was \$14 000. The bookkeeper recorded the transaction as follows: (3 marks)

	Dr.	Cr.
	\$	\$
Office equipment	14 000	
Bank		12 000
Gain on purchase of office equipment		2 000

Historical cost principle is violated. It states that assets of business should be recorded at original cost of purchase or production. In this case, the computer should be recorded at \$12000 but not the current market value \$14000.

4. Information management can support the human resources department of a company in different ways. List three of them. externally (3 marks)

First, information management helps collect information about the labour flow in market for human resources department to recruit people.
 Second, information management collect information internally about workers' working performance for human resources department to assess their performance.
 Third, information management help human resources department to turn data into information.

5. David is a sole proprietor who keeps records of his cash and bank transactions in a three-column cash book. The balances in the cash book as at 1 January 2013 were: cash \$12 680 and bank overdraft \$30 980. In addition, a petty cash imprest amount of \$2000 was maintained on that date. Transactions made in January 2013 were as follows:

2013

- Jan 2 Received a cheque from a customer, Lung, who was given a cash discount of 2½% to settle his account of \$150 000. The cheque was banked on the same day.
 5 Paid a 20% deposit by cheque for the purchase of a motor van costing \$200 000. The balance was to be paid on delivery two weeks later.
 7 Received a cheque of \$190 000 from Hilly Company as commission for work done.
 14 Cash amounting to \$8790 from sales were deposited into the bank directly.
 17 David withdrew \$3200 from the cash box to pay his son's school fees.
 19 Paid the balance of the motor van purchased on 5 January by cheque.
 24 Settled Kam Kee's account of \$35 000 by cheque, with a cash discount of 3%.
 28 Withdrew \$9000 from the bank and put the money in the cash box for business use.
 30 Paid wages of \$10 000 in cash and \$20 000 by cheque.
 31 Petty cash had a balance of \$205. The petty cash imprest amount was replenished with cash.

Write up a three-column cash book for January 2013.

(8 marks)

Cash Book

Date	Details	Discount	Cash	Bank	Date	Details	Discount	Cash	Bank
		\$	\$	\$			\$	\$	\$
2013					2013				
Jan 1	Bal b/d		12,680		Jan 1	Bal b/d			30,980
Jan 2	Lung	3,750		146,250	Jan 5	Deposit on Motor Van			40,000
Jan 7	Commission - Hilly Company			190,000	Jan 17	Drawings		3,200	
Jan 14	Cash Sales			8,790	Jan 19	Motor Van			160,000
Jan 28	Bank		9,000		Jan 24	Kam Kee	1,050		33,950
Jan 31	Bal c/d				Jan 28	Cash			9,000
					Jan 30	Wages		10,000	20,000
					Jan 31	Petty Cash		1,795	
					Jan 31	Bal c/d		6,685	51,110
		3,750	21,680	345,040			1,050	21,680	345,040

6. Explain three ways in which division of work could enhance the efficiency of a manufacturing company. (6 marks)

First,
A manufacturing company can divide its work into purchase of raw materials, manufacturing and delivering. By division of work, workers ^{of each working department} can understand clearly their own duties. This facilitates production process. Second, division of work achieves unity of command. Workers of each department receive instruction independently from the head of 1 department. So, ~~they~~ this enhances working efficiency. Third, division of work enables manufacturing workers to specialize their skills. As they are skilful in a particular production process, manufacturing process can run efficiently.

7. In the sales department of a firm, the manager and the sales representatives discussed and agreed on the sales target for a quarter. Throughout the quarter, the manager met the sales representatives regularly to discuss problems encountered and gave appropriate support. At the end of the quarter, the manager reviewed the performance of the sales representatives and gave them rewards and feedback.

- (a) Name the principle of effective management applied in the above sales department. (1 mark)

Management by objectives.

- (b) From the sales department's point of view, explain two advantages of applying the principle of effective management named in (a). (4 marks)

First advantage is subordinates have higher motivation to work. It is due to sufficient support from managers and feedback given to them. Since they are motivated, productivity increases and the sales volume increases.

Second advantage is improved communication between manager and sales representatives. Through regular meetings, they discuss sales target and problems encountered together, communication is improved. So, manager can better understand the needs of sales representatives and department can give corresponding support to facilitate operation.

END OF PAPER

Comments

The candidate demonstrated comprehensive knowledge and understanding of business concepts as well as accounting/management functions and processes. He/She was able to apply business knowledge to unfamiliar case situations to tackle business problems. The theories and principles of business, accounting and finance were critically evaluated from different perspectives. The candidate communicated ideas, including opinions and suggestions, in a logical and coherent manner with appropriate business terminology.

In Question 1, the benefits for customers of using credit card were well elaborated and the likelihood of collecting money from applicants with a good credit record was explained. In Question 2, three appropriate types of external factors were considered in-depth. In Question 3, the accounting principle/concept violated in each case was accurately identified and appropriate explanations were given. In Question 5, all transactions were correctly recorded in the Cash Book, which was well presented. These showed that the candidate had a good mastery of basic accounting knowledge. In Question 4, the use of information management in collecting information about the labour market and workers' performance were mentioned. In Question 6, enhancement of efficiency through utilising specialised skills of workers was mentioned. In Question 7, MBO was identified and the advantages of applying MBO in the case were well explained and logically presented.

The answers provided by the candidate were comprehensive and logical with very good analysis and evaluation of different business scenarios. This piece of work is of Level 5 in the HKDSE reporting scale.

Paper 2A

試題編號 Question No.												
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每題另起新頁作答。
Start each question on a new page.

a. Prudence concept is violated. It states that assets or revenues of a business should not be overstated while liabilities or expenses should not be understated. In this case, even though the company has very good reputation, goodwill should not be proposed since this can overstate the assets of the company.

Journal entries required:

	Dr \$	Cr \$
Sundry Revenue	300,000	
Goodwill		300,000

b.

Bank			
2013	\$	2013	\$
Mar 1 Bal b/d	62,300	Mar 1 Accounts Payable	82,750
Mar 1 Accounts Receivable	287,000	Mar 31 Accounts Receivable	32,110
		Mar 31 Dishonoured Cheque	
Mar 31 Accounts Receivable - Credit Transfer	125,000	Mar 4 Management Fee	8,800
		Mar 8 Rent-Standing Order	165,500
Mar 31 Dividend Income	2,840	Mar 28 Accounts Receivable	32,110
		Mar 28 Dishonoured Cheque	
		Mar 31 Bal c/d	205,580
	<u>477,140</u>		<u>477,140</u>

試題編號 Question No.

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Start each question on a new page.

a. Equipment	
2012	2012
Jan 1 Bal b/d	Dec 31 Disposal - Equipment
675,000	270,000
Dec 31 Bank - Testing Fees	Dec 31 Bal c/d
12,500	740,100
- Repairs and Maintenance Fees	
42,600	
- Purchase Cost	
280,000	
<u>1,010,100</u>	<u>1,010,100</u>

b. Accumulated Depreciation - Equipment	
2012	2012
Dec 31 Disposal - Equipment	Jan 1 Bal b/d
54,000	135,000
Dec 31 Bal c/d	Dec 31 Depreciation (W1)
212,820	131,820
<u>266,820</u>	<u>266,820</u>

Workings : $W1 = (675,000 - 270,000) \times 80\% \times 20\% + (280,000 + 12,500 + 42,600) \times 20\%$
 $= 131,820$

c. Consistency concept is violated. It states that the company should use the same accounting policy from period to period. A change is allowed only if it can give a more accurate ^{and true} view of the financial situation. In this case, same depreciation methods should be ~~not~~ adopted in different years.

試題編號 Question No.

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每題另起新頁作答。

Start each question on a new page.

Direct Material	500,000
Direct Labour	2,850,000
Production Overheads	

a. Predetermined Production Overhead Absorption Rate

$$= 780,000 \div 60,000$$

$$= \$13 \text{ per direct labour hour.}$$

b. The electrical work is labour-intensive so direct labour hours is used as absorption base.

c.	\$
Direct Materials	25,000
Direct Labour - Electricians	12,000
- Apprentices	10,500
Prime Cost	47,500
Production Overheads Absorbed ($\$13 \times 500$)	6,500
Production Cost	54,000
Administrative Overheads	13,500
Total Cost	67,500
Net Profit	67,500
Selling Price	<u>135,000</u>

試題編號 Question No.

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a. Capital

	Carrie \$	Daisy \$	Ellen \$		Carrie \$	Daisy \$	Ellen \$
Bank	230,000	-	-	Bal b/d	700,000	650,000	-
Loan from Carrie	1,164,800	-	-	Bank	-	-	850,000
Goodwill Adjustment	-	175,000	175,000	Goodwill Adjustment	210,000	140,000	-
Current	72,000	-	-	Profit on Revaluation (W1)	556,800	371,200	-
Bal c/d	-	986,200	675,000				
	<u>1,466,800</u>	<u>1,161,200</u>	<u>850,000</u>		<u>1,466,800</u>	<u>1,161,200</u>	<u>850,000</u>

c. Current

	Carrie \$	Daisy \$	Ellen \$		Carrie \$	Daisy \$	Ellen \$
Bal b/d	72,000	-	-	Bal b/d	-	247,000	-
Bal c/d	-	433,224	113,776	Capital	72,000		
				Appropriations:			
				- Interest on Capital	-	39,448	27,000
				- Salary	-	60,000	-
				- Share of Profits	-	86,776	86,776
	-	<u>433,224</u>	<u>113,776</u>		-	<u>433,224</u>	<u>113,776</u>

Workings: (W1)

Revaluation

	\$	\$		\$
Equipment		120,000	Property	1,070,000
Allowance for Doubtful Debts		22,000		
Profit on Revaluation				
- Carrie ($\frac{2}{3}$)	556,800			
- Daisy ($\frac{1}{3}$)	<u>371,200</u>	<u>928,000</u>		
		<u>1,070,000</u>		<u>1,070,000</u>

b. Statement of Financial Position ^{Daisy and Ellen} as at 1 January 2012			
	\$	\$	\$
Non-Current Assets			
Property, net (1,250,000)			2,320,000
Equipment, net (600,000 x 80%)			<u>480,000</u>
			2,800,000
Add Current Assets			
Inventory		300,000	
Trade Receivables	550,000		
Less Allowance for Doubtful Debts	<u>22,000</u>	528,000	
Bank (100,000 + 850,000 - 230,000)		<u>720,000</u>	
		1,548,000	
Less Current Liabilities			
Trade Payables		<u>275,000</u>	
Net Current Assets			<u>1,273,000</u>
			4,073,000
Less Non-Current Liabilities			
Bank Loan			(700,000)
Loan from Carrie			<u>(1,164,800)</u>
			<u>2,208,200</u>
Financed by:			
Capital - Daisy		986,200	
- Ellen		<u>675,000</u>	1,661,200
Current - Daisy		<u>433,224</u>	

To be Cont'd (b).		
- Ellen	<u>113,776</u>	<u>547,000</u>
		<u>2,208,200</u>
d. There will be a change in profit and loss ratio in partners' share. sp		
Revaluation is needed to protect the interests of new partners.		

試題編號 Question No.

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每題另起新頁作答。

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a. Income Statement for ^{Mr Luk} the year ended 31 December 2012

	\$	\$
Sales		1,335,320
Less Cost of Goods Sold		
Opening Inventory	123,000	
Add Purchases	941,700	
	1,064,700	
Less Closing Inventory	110,900	953,800
Gross Profit		381,520
Less Expenses		
Administrative Expenses (226,000 + 1150)	227,150	
Selling Expenses (64,300 + 44,000 + 20,000)	128,300	355,450
Net Profit		<u>26,070</u>

b. Statement of Financial Position ^{Mr. Luk} as at 31 December 2012			
	\$	\$	\$
Non-Current Assets			
Office Equipment, net			120,000
Add Current Assets			
Inventory		110,900	
Insurance Receivable		49,510	
Bank		176,000	
Cash		99,020	
		435,430	
Less Current Liabilities			
Trade Payables	102,800		
Accrued Expenses	1,150	103,950	
Net Current Assets			331,480
			451,480
Financed by:			
Capital			
Balance as at 1 January 2012			547,000
Add Net Profit for the year			26,070
			573,070
Less Drawings			120,850
			452,220

Workings :		Cash	
	\$		\$
Bal b/d	10,900	Selling Expenses	44,000
Sales	1,335,320	Bank	1,203,200
		Bal c/d	99,020
	<u>1,346,220</u>		<u>1,346,220</u>
		Bank	
	\$		\$
Bal b/d	392,100	Administrative Expenses	226,000
Cash	1,203,000	Trade Payables	987,900
		Drawings	120,850
		Selling Expenses	64,300
		Bank Charge	20,050
		Bal c/d	176,000
	<u>1,595,100</u>		<u>1,595,100</u>

		Total Accounts Payable	
	\$		\$
Bank	987,900	Bal b/d	149,000
Bal c/d	102,800	Purchases	941,700
	<u>1,090,700</u>		<u>1,090,700</u>

試題編號 Question No.

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Start each question on a new page.

a(i).	\$
Sales	960,000
Direct Materials Cost	(120,000)
Direct Labour Cost	(150,000)
Variable Production Overheads	(66,000)
Contribution	624,000
Contribution Margin Ratio ($\frac{624,000}{960,000} \times 100\%$)	<u>65%</u>
(ii). Fixed Production Overheads	\$ 190,000
Fixed Administrative Overheads	57,000
Fixed Costs	247,000
Contribution Margin Ratio	<u>65%</u>
Breakeven Sales	<u>380,000</u>
(iii). Margin of safety = $\frac{960,000 - 380,000}{960,000} \times 100\%$	
	= 60.42% ,,
Original	\$
b(i). Contribution	624,000
Sales Commission	(48,000)
New Contribution	576,000
Contribution Margin Ratio ($\frac{576,000}{960,000} \times 100\%$)	<u>60%</u>

b(ii). Fixed Costs	\$ 247,000
Contribution Margin Ratio	60%
Breakeven Sales ($\$247,000 \div 60\%$)	<u>\$ 411,667</u>
Sales Commission increases breakeven sales.	
	\$
(iii). Old Contribution	624,000
Increased Sales Revenue	100,000
Sales Commission	(53,000)
New Contribution	671,000
New C/S ratio ($671,000 \div 1,060,000$)	63.30%
Breakeven Sales	390,194
Margin of safety	
∴ Breakeven Sales is reduced.	
∴ Yes, I recommend the company to offer commission.	
c. A decline in margin of safety means the difference between actual sales and breakeven sales decreases. So, the company earns less profit and the chance of incurring losses increases.	

試題編號 Question No.

1 2 3 4 5 6 7 8 9 10 11 12

13 14 15 16 17 18 19 20 21 22 23 24 ≥25

每題另起新頁作答。
Start each question on a new page.

a(i). ~~Current ratio~~
= ~~$\frac{85,864 + 14,000}{43,300 + 23,100}$~~

	2011	2012
Current ratio :	$\frac{37,500 + 32,020 + 200 + 79,680}{43,300 + 23,100}$	$\frac{85,864 + 14,000 + 500 + 162,936}{60,000 + 100,200 + 15,000}$
	= 2.25 : 1 "	= 1.50 : 1 "

(ii) Liquid ratio :	$\frac{37,500 + 32,020 + 200}{43,300 + 23,100}$	$\frac{85,864 + 14,000 + 500}{60,000 + 100,200 + 15,000}$
	= 1.05 : 1 "	= 0.57 : 1 "

(iii). Day's Sales in Accounts Receivable :	$\frac{(37,260 + 37,500) \div 2}{454,790} \times 365$	$\frac{(37,500 + 85,864 + 14,000) \div 2}{625,942 + 14,000} \times 365$
	= 30.00 days "	= 39.17 days "

(iv). Inventory Turnover:	$\frac{454,790 - 96,110}{(88,320 + 79,680) \div 2}$	$\frac{625,942 + 14,000 - 230,191}{(79,680 + 162,936) \div 2}$
	= 4.27 times "	= 3.38 times "

(v). Net Profit Ratio :	$\frac{115,000 - 69,521}{454,790} \times 100\%$	$\frac{132,722 - 115,000}{625,942 + 14,000} \times 100\%$
	= 10 % "	= 2.77 % "

(vi). Earnings per share :	$\frac{115,000}{155,000 \div 5}$	$\frac{132,722}{155,000 \div 5}$
	= \$ 3.71 "	= \$ 4.28 "

~~Workings:~~

~~W1 = Cost of Good~~

b (i). Profitability in 2012 is unsatisfactory. This is reflected by the net profit ratio, which is 2.77%. This shows it incurs large amount of operating expenses when ~~earn~~ producing profit.

(ii). Able Company can borrow less loan so that current assets can better cover debts.

Able Company can ~~not~~ monitor the flow of inventory to facilitate the process of turning inventory into sales. Able Company can keep collecting money from ~~the~~ ~~debtors~~ regularly at a specific date.

Comments

The candidate demonstrated comprehensive knowledge and understanding of the accounting concepts covered by the syllabus. The candidate demonstrated a good ability to apply accounting knowledge in unfamiliar situations and was able to communicate ideas effectively in a logical and coherent manner with appropriate use of accounting terminology.

In the practical questions, the candidate was able to apply his/her knowledge towards solving many problems in unfamiliar situations. In Question 4, the candidate made the necessary entries in the capital and current accounts. The statement of financial position was properly drawn up. In Question 7, the candidate worked out many of the ratios as required by the question. Costing Questions 3 and 6, which demanded synthesis and evaluation skills, were well answered.

In answering the theoretical questions, the candidate was able to communicate factual information effectively. In Question 3, the candidate pointed out that the same accounting policy should be applied in like terms across years. In Question 7, good comments were made on the profitability of the Company.

In summary, the answers provided by the candidate were comprehensive and logical with very good analysis and evaluation of various accounting topics. This piece of work is of Level 5 in the HKDSE reporting scale.

Paper 2B

試題編號 Question No.											
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每題另起新頁作答。
Start each question on a new page.

1.) The performance appraisal can be used to identify the strengths and weaknesses of an employee. If the result show that the ability of the employee is not capable to perform the job, Training can be provided.

Also, The performance appraisal can be used as a medium of determining the compensation. As the employee carry out different tasks with different performance, bonus may be provided for those employee who have good performance as a reward.

Moreover, the performance appraisal can be used as a ^{basis} ~~reason~~ to do promotion, demotion or termination of an employee. As the performance appraisal measure the performance of employee in daily operation, the significant success or failure of an employee's performance can be revealed so that the appraiser can be based on the result of ~~app~~ appraisal to determine whether promotion or demotion is needed for an employee as a reward or penalty.

試題編號 Question No.

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每題另起新頁作答。

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2). Firstly, the company should evaluate the character of the customer. It refers to the financial reputation of an customer. With good credit record, that means good character, the risk of granting credit to this customer is lower as from the past record, the customer is able to repay the debt and thus the ~~possibility~~ possibility of suffering loss or bad debt will be lower.

Secondly, the collateral should be consider. It refers to the asset provided by the customer as a pledge of security for extend the credit. With more adequate collateral provided, the risk of granting credit will be lower. ~~as~~ as the collateral can be seen as a pledge, even though the customer is fail to repay the debt, the ~~the~~ company can still own the asset and minimize the loss caused by the bad debt.

Thirdly, the condition should be considered. It refers to the external environment of the ~~economy~~ ^{economy}, with an optimistic view of an economy, the risk of granting credit will be lower, as ~~the unemployment rate is going to decrease, the~~ ~~the~~ With a more floating economy, the risk of granting risk will be higher. as the ~~repayment~~ ability of the customer might be affected by the external change of economy.

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3). Retaining the existing customer can enjoy a lower cost of serving them a new customer. As the existing customer are more familiar with the goods or services provided by the company, the staff do not need to waste a lot of time for presenting the product features, customer can serve themselves as they already know what exactly will they get when shopping in this company. However, the new customer need someone to tell them about the information of the company and the product, Also, ~~the cost~~ The cost of serving is much higher.

Also, the existing customer are more willing to buy some ancillary product. This can help to boost the sales. The existing customer is satisfied with the current performance of the product or service, so they are willing to try other product provided by the company as they have confidence in the quality of the service or product provided. However, a new customer may not buy other products as they do not know the product quality offered by the company. They have to try first so they are less willing to buy some ancillary product.

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Firstly, for the first time of ~~see~~ the employee commit the offence, warning should be given. For example, sending a warning letter to the employee to advise him about the details of the offence, the rules violated and the consequence. This act as an record and ~~structure~~ structure of the offence is quite minor, oral warning can be given.

Secondly, if the ~~a~~ employee repeated misconduct, ~~the~~ reduction on bonus or commission can be adopted. For example, ~~the~~ reduce a percentage of bonus is effective to those employee who place much importance on their ~~salary~~ salary income. This can be effective to act as a ~~penalty~~ ~~severe~~ warning for repeating the offence.

Thirdly, if the employee commits the ~~same~~ ^{offences again.}, ~~suspension~~ ~~demotion~~ demotion should be adopted. This ~~to~~ ~~can~~ will ~~be~~ have emotion pressure for the employee as he has been demoted to a position with lower authority and responsibility. ~~The~~ employee may feel embarrassed. ~~However~~, opportunity should be given if the employee's ~~can~~ performance has improved and meet a required standard.

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5). As an a multi-national corporation ~~is~~ has widely spread their business to different country, adopting the departmentalisation by geographical location can reduce the cost. For example, ~~be~~ the production ~~process~~ should place in some city or country with lower labour cost, ~~the~~ instead of those developed country which often with high labour cost. Therefore, using the geographical location to adopt the departmentalisation can ~~not~~ cut the production cost.

Also, [↑] make good use of different geographical location's comparative advantage can greatly increase the operating efficiency. For example, ~~with~~ those country with ~~my~~ advanced technology can do the computer work more effectively and efficiency, ~~if~~ ~~the~~ if the multi-national ~~firm~~ firm do not ~~only~~ adopt divisional departmentalisation by geographical location, the operating efficiency will be hindered.

1. adopting divisional departmentalisation by geographical location

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The contract state ~~clear~~ the terms of trade agreed ~~in~~ the by the two parties, it can ~~also~~ avoid the disputes between two parties as the contract has state the terms specific, ~~the~~ the two parties do not need to argue on the trading process.

Also, when there is a violation on the trading such as ~~the~~ for the supplier ~~fail to~~ fail to deliver the raw materials on time with good quality as stated in the contract. The ~~other~~ contract ~~can~~ can act as a record and enable the other parties to seek compensation as the supplier violate the contract terms. The contract may help the buyer to seek damage through legal action and act as record.

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a). First, Yummy group can use risk transfer, it refer to buying ~~some~~ some insurance to do loss prevention. As the food poisoning issue, Yummy group ~~may~~ may suffer from some poisoning materials, if there are customer ~~that~~ want to sue the company because they are being affected, Yummy group can do compensation by using the insurance to reduce the loss.

Second, risk ~~reduction~~ assumption can also be used. Yummy group can set up a fund in fear that it would be a customer has been poisoned. The fund can be a source to do compensation so that the risk of food poisoning issue ~~can~~ ~~be~~ ~~assess~~ that the customer may suffer can be ~~de~~ ~~ass~~ ~~assump~~ assumed.

b). When doing the marketing research, observation can be firstly used. It means that to observe the behaviour of the customer. For example, since Yummy group want to generate idea ~~to~~ on the menu, ~~at~~ the researcher can observe in a outlet to see which type of food the customers purchase most, it can help

To find out: The ~~most~~ food that customer like the most

Moreover, observation cannot find the customer's feeling, then it can be use the survey to find out what is they ~~they~~ thinking about the food. The survey can be designed to ask a few question about the taste of the food, the perferences of the customer, this can help Yummy group to find out what should placed on the menu to attract customer. such as salad if it is the most preferred food if from the survey result, then salad can be put on the menu.

Furthermore, Focus group discussion can also be used. It ~~is~~ means that there is a mediator who facilitate communication and discussion in a group of people to discuss ~~the~~ the particular topic. For example, Yummy group can ~~use this~~ use ~~to~~ this method by inviting some middle class customer, ask them to discuss what type of healthy food should be placed on the menu, the information collected by the mediator can be a reference when determining the menu.

b). ~~Very~~ The revenue should be large enough to ~~break even~~ ~~the~~ ~~introduction~~ ~~costs~~. Yummy group may find that ~~more~~ those middle-class is able to afford the healthy food as their income are rather stable. Also, as ~~they are~~ ~~of~~ middle-class are always aged between ~~the thirties and forties~~ ^{adults or even older people}, they are start to be more ~~ca~~ careful on their health, so they are more willing to ~~at~~ consume healthy food.

~~Using the~~ ~~Four~~ Moreover, the criteria ~~of~~ for evaluating a market segment is the segment should have growth potential. As Yummy group find out that Hong Kong people is now more aware the ~~to~~ health issue, it can be ~~po~~ predicted that the health food ~~market~~ ~~can be~~ will be more preferred by the customer in future, the market growth is ensured.

Furthermore, ~~as~~ the criteria of an segment should be ^{that} the competition is not too keen ~~on~~. The health food market is still ~~not~~ relatively new ~~to~~ them the fast food market which has saturated. Yummy group face less competition in the market to serve the middle class people ~~or~~ for organic food restaurant. (見後頁).

c). Also, the criteria of ~~the~~ evaluating the market segment is the company can satisfy the demand on the market. As the organic food for middle-class is ^a quite new market the Yummy Group can surely satisfy those demand ~~with~~ so it makes the middle-class segment is ~~the~~ most effective to Yummy group.

d). Issue ~~share~~ shares, obtain long term bank loan, issue bonds:

e). First, use advertisement to create awareness. Yummy group should try to set up a media plan to promote the organic food, it can ^{be} used to arouse the awareness of people on the health issue and the organic food. This can help to create people's awareness.

Second, stimulate demand by sales promotion, use the sales promotion ~~can~~ such as free sample to ^{let} ~~make~~ the customer to taste the organic food or offer ~~or~~ coupon to offer discount to customer to ~~attract~~ attract them to buy ~~to~~ the organic food.

Third, use publicity ^{by} prepare a ~~top~~ feature article. It is a long manuscript for ~~an~~ special product. The article can be used for Yummy Group to introduce the organic food. As there may be a middle-class people that ~~don't~~ ^{don't} not know the detail of organic food, the article can offer such details to make the people know ~~of~~ more about it.

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a). Richard thinks that ~~the~~ his employees are not willing to take responsibility so they will slack and thus, he uses the close supervision to avoid the problem, he hopes that he can monitor the worker to work by close supervision.

Richard also thinks that as the employee is Theory X and so they will be motivated by financial reward. Thus, he offers a higher rate ~~than~~ than the market level in order to motivate these workers.

Richard thinks that their employees are preferred rather than leading so he requires the employees to listen to his orders and instructions, and he thinks the autocratic leadership can help to motivate the workers.

b). Wages can be provided. Using the piece rate can link the effort and the reward, with a higher level of effort, more income can be earned ~~as this~~ so that the employee can be motivated.

Also, use commission. For example, Richard can use commission to ~~integrate~~ integrate the interests of employees.

and employee, this can help the employee to work ~~more~~ ^{more} towards the goals. For example, the sales volume meet a certain standard can have higher commissions.

Furthermore, the bonus can be used. For example, Richard can use the bonus to attract employee to have better ~~to~~ ^{high} performance such as receiving a number of customer appreciation can ~~or~~ have bonus, this help the employee to be motivated to work towards the goals.

c) - Inseparability. As the customer ~~or~~ will involve in the service providing process, they ~~may~~ may create uncertainties and the employee will become the tangible ~~chess~~ ^{chess} for ~~these~~ the customer. Providing training can help to increase the quality of ~~a~~ ^{the} service provided by the employee and thus to meet the service standard.

⊗ Perishability. As the service cannot be stored, reserved the demand can only be satisfy by the service provided on that time, it ~~or~~ create peak demand ~~⊗~~ and ~~to~~ non-peak demand. Training can increase ~~the~~ the employee to provide service more efficient, this can satisfy the peak demand,

productivity can be enhanced.

d(i). Year	Cash flow (million)	
0	(12)	
1	4	
2	4	$4 \times 3 - 12 = 0$
3	4	
4	4	

The payback period will be 3 years of the on-line shopping project.

(i). Payback period ~~only~~ do not consider the time value of money, as the value of future payment is worth more or less, it cannot simply ~~compare~~ compare it with the present value.

Also, it do not consider the whole project worth. As the payback period method only consider the revenue ~~at~~ at the payback period, the whole project worth is not considered, it maybe a higher return for longer payback period project than a shorter payback period.

(ii) The net present value:

$$4 \left(\frac{1}{1.08} + \frac{1}{1.08^2} + \frac{1}{1.08^3} + \frac{1}{1.08^4} \right) - 12$$

$$= (13.248 - 12) \text{ million. (corr to 3d.p.)}$$

$$= 1.24850736 \text{ million}$$

(ii). The project's net present value is positive, so it should be adopted.

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a) Firstly, the sales of a product is in the growth stage is increasing as more and more people start to buy the product.

Second, the cost of selling the product will be large as the promotion expenses are large to create product differences.

Third, the profit of the product will increase and reach the peak. As the sales are increasing rapidly. ①

Fourth, the main objective of the company is to maximize its market share in order to earn more. As more and more ②.

Fifth, also, the number of competitors is increasing as more and more company find that the market is profitable to entry. They all try to enter the market to seek profit.

① (The profit of a company made will increase and before entering into the maturity stage, the profit will attain its maximum.)

② competitors are trying to enter the market, the company ②
見後頁

b). Promotions from within of policy can help to save time and cost. As recruiting the manager outside the company may need time to ~~wait~~ wait for application and ~~also~~ advertising cost to attract ~~per~~ qualified applicants. ~~use~~ Recruiting internally can save ~~the~~ time and cost so that it is less costly.

Also, as the employee are recruited internally, ~~the~~ the performance of the employee can be ~~see~~ known. ~~the~~ If recruit someone outside the company, the working attitude is not shown on the resumes, but employee inside the company ~~pro~~ that choose to promote to the manager position, the past performance and qualification one ~~can~~ keep in record. It ~~is~~ ^{can} ~~relatively~~ be more ensure the employer's ~~per~~ working performance.

Besides, the existing employee ~~is~~ ~~can~~ have more understanding on the company goals. As the manager has to carry out business strategies, with a better understanding on the business goals can help to perform the work more efficient. ~~the~~ However, those applicants from outside may not know the ~~goal~~ objectives of the company so clearly, it may affect ~~the~~ the effectiveness for him to

carry out the strategies.

a) ~~A~~ has to maximize its market share so that a large profit can be earned.

Comments

With few exceptions, the candidate demonstrated comprehensive knowledge and understanding of business management concepts. The candidate was able to apply those concepts to analysing management problems in different settings. For example, the candidate clearly knew the uses of performance appraisal in Question 1. In Question 2, factors in granting credit to customers were described with a correct application of the relevant technical terms. In Question 3, the candidate clearly understood the relative benefits of keeping existing customers over finding new customers. In Question 4, the candidate was able to identify different disciplinary actions in a progressive manner. The response to Question 5 is the exception in this candidate's answers, as he/she failed to respond directly to the question. However, the candidate correctly identified geographical departmentalisation as a type of divisional departmentalisation. In Question 6, the candidate discussed the importance of contract clearly. In Question 7, the candidate was able to apply various concepts in risk and marketing management to the case. In Question 8, the candidate correctly identified the key elements of Theory X, characteristics of service, the payback and NPV methods, and was able to apply these concepts specifically to the case. In Question 10, the candidate was able to identify some major characteristics of the market in its growth stage, as well as the advantages of internal promotion. This piece of work is of Level 5 in the HKDSE reporting scale.