

HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

**HONG KONG DIPLOMA OF SECONDARY EDUCATION
EXAMINATION 2014/15**

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
MOCK EXAMINATION**

**PAPER 1
(SUGGESTED MARKING SCHEME)**

(Suggested Answers)

SECTION A (60 marks) Multiple-choice Questions

Suggested Answers for Multiple Choices: 30@2% = 60%

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

(Suggested Answers)

SECTION B (30 marks) Short Questions

Question 1

(Total: 9 marks)

(a)	Asset:	Furniture and fixtures, Closing stock	
	Capital:	Opening capital, Drawings	
	Liability:	Bank overdraft, Bank loan	
	Revenue:	Sales, Returns inwards	
	Expense:	Cost of goods sold, Operating costs	
	Every two items from the above score 0.5 mark		(2.5 marks)

(b)	<p style="text-align: center;">Johnson Company</p> <p style="text-align: center;">Income Statement for the year ended 31 December 2013</p>		- 0.5 for incorrect heading
		\$	
	Sales	30,000	Both correct 0.5
	Less: Returns inwards	6,400	
		23,600	
	Less: Cost of goods sold	24,000	0.5
	Gross loss (gross profit with negative fig. not acceptable)	400	0.5
	Less: Expenses		
	Operating costs	7,500	0.5
	Net loss (net profit with negative fig. not acceptable)	7,900	0.5
	(30,000 – 6,400 – 24,000 – 7,500 = – 7,900)		(2.5 marks)
(c)	Opening capital	\$ 2,600	0.5
	Capital introduced	12,000	0.5
	Less: Drawings	(3,700)	0.5
	Less: Net loss	(7,900)	0.5
	Closing capital	3,000	(2 marks)
	(2,600 + 12,000 – 3,700 – 7,900 = 3,000)		
(d)	Furniture and fixtures	\$ 55,000	Both correct 0.5
	Closing inventory	8,300	
	Bank overdraft	(1,500)	0.5
	Cash (introduced at the end of year)	12,000	0.5
	Closing capital	(3,000)	0.5
	(2,600 + 12,000 – 3,700 + 30,000 – 6,400 – 24,000 – 7,500 = 3,000)		
	Bank loan	70,800	(2 marks)
	Or using Trial Balance approach: (55,000 + 8,300) 0.5 – 1,500 0.5		
	(–2,600 + 3,700 – 30,000 + 6,400 + 24,000 + 7,500) 1 = 70,800		

Question 2

(a)	Authority and responsibility (1 mark) Mary has assigned the responsibility of securing a bank loan to the accounting supervisor. However, she does not give him appropriate authority to complete the assigned duty. To be effective in management, authority and responsibility should be in balance. (1 mark)	2 marks
(b)	Top management (1 mark) Top management is responsible for making company-wide decisions and determining the overall goals and direction of the company. (1 mark)	2 marks
(c)	Technical skills (1 mark) Technical skills are the abilities and knowledge to perform a particular job. These skills enable managers/supervisors to direct and monitor their subordinates to perform their tasks. (1 mark)	2 marks

(Total: 6 marks)

Question 3

(a)	Net present value: $[-\$8,000 - \$9,000/(1+6\%)] (0.5) - \$11,130/(1+6\%) (0.5) + \$32,000/(1+6\%)^3 (0.5)$ $= -\$122.75 \text{ (to the nearest cent) (correct final figure} \rightarrow 2 \text{ marks)}$	2 marks
(b)	Since the net present value of Project A is negative, David should not invest in the project. (correct conclusion with right reason \rightarrow 1 mark) To delay the cash investment(s) / To speed up the collection of cash return / A decrease in cost of capital. (any one possible change of condition \rightarrow 1 mark) (To change the timing of cash flows is not acceptable, not specific enough)	2 marks
(c)	If David decides to invest in Project A instead of Project B or Project C, the opportunity cost for him is the highest benefit (i.e. net present value) obtained from Project B or Project C which is forgone because of the investment decision.	1 marks

(Total: 5 marks)

Question 4 (Suggested Answers)		
(a)	<p>Planning (1 mark)</p> <p>The board of directors should have set an attainable goal for the company to complete the project in 10 years instead of 5 years only. (1 mark)</p> <p>Or</p> <p>Controlling (1 mark)</p> <p>The board of directors failed to implement proper control over the progress of the project so that it was completely unaware of the delay until late March 2014. (1 mark)</p>	<p>Any 1 x 2 marks</p> <p>(2 marks)</p>
(b)	<p>Manpower planning / Human resources planning (1 mark)</p> <p>The human resources department should plan for the adequate quantity and qualification of the staff that the project requires in the coming 3 years. (1 mark)</p> <p>Or</p> <p>Staffing / Recruitment and selection (1 mark)</p> <p>The human resources department should try to import non-local specialized workers under the government policy. (1 mark)</p> <p>(Training and development / Performance management / Compensation and benefit management / Maintenance of a quality workforce / Industrial relations are not applicable in this case)</p>	<p>Any 1 x 2 marks</p> <p>(2 marks)</p>
(c)	<p>More complicated organizational structure (1 mark)</p> <p>Being a listed company, the size of the NTR Corporation might be much larger than an SME so that communication between the top management and the frontline staff is more difficult. (1 mark)</p>	<p>(2 marks)</p>
(d)	<ul style="list-style-type: none"> ● Wider source of capital (1 mark) A listed company can raise fund from the public and have wider source of capital other than from the government. (1 mark) ● Improvement of efficiency (1 mark) A listed company runs business on commercial basis and can attain higher operating efficiency to remain competitive in market. (1 mark) ● Share of profit with the public (1 mark) By converting into a listed company, the public and the government can share profits from the company in the capacity of shareholders. (1 mark) ● Increase of government revenue (1 mark) The government can obtain extra revenue by selling the shares of NTR Corporation to the public. (1 mark) 	<p>Any two: 2 x 2 marks</p> <p>(4 marks)</p>

(Total 10 marks)

Question 5 (Suggested Answers)		
(a)	<ul style="list-style-type: none"> ● Maximizing profit earned (1 mark) All profits from a self-operated shop belong to HFT. On the other hand, HFT only collects promotional and management fees from a franchised shop. (1 mark) 	
	<ul style="list-style-type: none"> ● Absolute control over product and service quality (1 mark) Sometimes, it is rather difficult for the franchisor to monitor closely its franchisee's operations all the time and the quality of product and service will be compromised. (1 mark) 	
	<ul style="list-style-type: none"> ● Upholding goodwill (1 mark) The quality control of a self-operated shop will be much easier than a franchised shop so that the chance of damaging HFT's goodwill will be much lower. (1 mark) 	
	Any one:	2 marks
(b)	<ul style="list-style-type: none"> ● Physical factor (1 mark) The expiry day of fresh products is comparatively short. Therefore, to ensure the freshness of the products, the production facilities should be located near its retailed outlets in Hong Kong. (1 mark) 	
	<ul style="list-style-type: none"> ● Technology factor (1 mark) HFT does not have effective methods to keep its products fresh if the products are produced in China. (1 mark) 	
	<ul style="list-style-type: none"> ● Social factor (1 mark) Most customers have high confidence in food safety of fresh products produced in Hong Kong. (1 mark) 	
	Any one:	2 marks
(c)	Operation management (1 mark)	1 mark
	<ul style="list-style-type: none"> ● It should review its production process to see whether products are manufactured in a proper procedure and stored in a clean container. (1 mark) 	
	<ul style="list-style-type: none"> ● It should strengthen its quality assurance on fresh products before they are leaving the production facilities. (1 mark) 	
	<ul style="list-style-type: none"> ● It should ensure proper inventory management on fresh products such as keeping products under a suitable temperature in refrigerators. (1 mark) 	
	Any two:	2 marks
(d)	Controlling	1 mark
	The first step is to set performance standard.	0.5 marks x 4
	The second step is to measure actual performance.	
	The third step is to compare actual performance with standards to find out the deviation.	
	The last step is to take corrective actions	
		2 marks

(Total 10 marks)