

**HONG KONG ASSOCIATION FOR BUSINESS EDUCATION****HONG KONG DIPLOMA OF SECONDARY EDUCATION  
EXAMINATION  
2016/2017****BUSINESS, ACCOUNTING AND FINANCIAL STUDIES  
MOCK EXAMINATION****PAPER 1  
(SUGGESTED MARKING SCHEME)**

Section A (2 marks each, 60 marks)

**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	C	D	D	A	D	B	A	C	B
11	12	13	14	15	16	17	18	19	20
C	B	A	D	D	C	A	B	B	B
21	22	23	24	25	26	27	28	29	30
C	C	C	A	A	A	D	B	A	A

Section B (30 marks)

**General Principles of Marking**

- The answers given in this marking scheme are 'suggestions' only. Other relevant answers will also be accepted.
- Where the number of points required is specified in a question, markers will mark the first listed points up to the number required, and cross out other points as 'excess'.
- The general guidelines for points which are awarded 0 to 2 marks each are as follows:
  - 0 mark : irrelevant or ambiguous answers
  - 1 mark : mention of key concept or words
  - 2 marks : explanation of the concept stated

(Suggested Answers)

**SECTION B (30 marks) Short Questions****Question 1**

(a)	<p>For using bank overdraft as a source of finance:</p> <p>The advantage is that the <u>repayment period is flexible</u>.</p> <p><b>Or</b></p> <p>The bank will not press for repayment if your financial status is health. <b>(Any 1)</b></p> <p>The disadvantage is that the <u>bank could press for repayment at any time</u> if your financial situation is at stake. <b>(1)</b></p>	2
(b)	<p>Ordinary shares <b>(1)</b> have a higher risk level than debentures.</p> <p>If the company makes a trading loss, <u>dividends may not be declared</u> but <u>debenture interest must be paid</u>.</p> <p><b>Or</b></p> <p>In case of liquidation, the <u>priority of claiming assets for ordinary shareholders is lower</u> than debenture holders.</p> <p><b>Or</b></p> <p><u>The fluctuations in the prices of ordinary shares are usually higher than debentures.</u> <b>(Any 1)</b></p>	2
(c)	<p>As a risk-averse investor, I will choose the ordinary shares of a large property developer <b>(1)</b> because</p> <p>The high interest rate of 20% p.a. indicates that the risk of default may be very high for the debentures issued by a small producer of domestic electric appliances.</p> <p><b>Or</b></p> <p><u>The risk of failure for a large property developer will be much lower than a small producer of domestic electric appliances</u> <b>(1)</b></p>	2

**Question 2**

(a)	<p>Joint venture <b>(1)</b></p> <p>Since the co-operation of the Hong Kong and British companies is <u>time limited</u> (the lease of the land will expire within 7 years) <b>(1)</b></p> <p><b>Or</b> <u>Aims at specific purpose</u> (building and operating a recreational facility), joint venture will be the most suitable type of ownership. <b>(1)</b></p>	2
(b)	<p>Sharing of risk <b>(1)</b></p> <p>The risk of the Hong Kong company <u>to enter the unfamiliar British market / a new market</u> will be <u>shared by the British company</u>. <b>(1)</b></p> <p><b>Or</b></p> <p>Shared expertise or Synergetic effect <b>(1)</b></p> <p>The <u>Hong Kong company</u> will be responsible for the construction of the facility and the <u>British company in tourism industry</u> is more experienced to <u>manage the recreational facility</u>. <b>(1)</b></p>	2

	<p>'Economies of scale' does not exist because the average cost of the project could not be reduced through co-operation of two different business sectors.</p> <p>'Provision of more capital' is not acceptable because the Hong Kong company has plenty of cash reserves.</p>	
(c)	<p>After Brexit, <u>British political environment becomes unstable</u>. (1) As a result, <u>risk of investment / operating costs</u> in Britain may become <u>higher</u>. (1)</p> <p>Or</p> <p><u>New trade restrictions may be introduced by European Union</u>. (1) As a result, <u>access to European market through Britain</u> will become much <u>more difficult</u>. (1)</p>	2

## Question 3

(a)	<p>Focusing on a small / narrow market (1) – The store focuses on selling Korean foods with local favour. (1)</p> <p>Or</p> <p>Innovative (1) – The <u>complimentary recipes of cross-culture fusion cuisine</u> can bring the food fusion of Korean and Chinese styles. (1)</p> <p>Or</p> <p>Owned and managed by single individuals (1) – Since Jung Ji-hoon is the only owner of the store, he enjoys <u>high management flexibility / prompt decision process</u>. (1)</p> <p><u>"Low capital requirements / Limited capital", "Simple organizational structure / Small staff size" or "Close customer relationship" is not the most important condition for the success of this food store.</u></p>	2
(b)	<p>Customers (1) : The prices of the products should be reasonable. / It should ensure that the products meet quality standards determined by the government. (1)</p> <p>Or</p> <p>Suppliers (1) : Honouring their contracts with the suppliers / Paying promptly according to the terms of the contracts after receiving the goods from suppliers. (1)</p> <p>Or</p> <p>Society / Community (1) : <u>Considering the impacts on the community when making decisions</u>. / Participate in charity work. / Maintain a clean and healthy environment nearby. (1)</p> <p>(Any two of the above)</p> <p><u>"Creditors" is not acceptable in this case because all funds are provided by the owner.</u></p>	4
(c)	<p>According to the <u>consistency concept</u>, it is <u>not proper to change</u> to Korean accounting standards. (1)</p> <p>Consistency concept refers to the assumption that <u>accounting treatment of like items within each accounting period and from one period to the next should be the same</u>. (1)</p> <p>Or</p> <p>Without acceptable reasons, the <u>reported results will not be comparable</u> across different years when the consistency concept is violated. (1)</p>	2

## Question 4

## Statement of calculating the net profit for the year ended 31 March 2016

	\$	\$	
Capital at 31 March 2016	+	48,000	Any two =
Add: Drawings	+	9,155	0.5
		<u>57,155</u>	
Less: Capital introduced	-	5,000	All four =
Capital at 31 March 2015	-	30,000	1
Net profit for the year		<u>22,155</u>	

## Alternative answer

	\$	\$	
Capital at 1 April 2015	+	30,000	Any two =
Add: capital introduced	+	5,000	0.5
Net profit for the year (balancing figure)		<u>22,155</u>	
		57,155	All four =
Less: Drawings	-	9,155	1
Capital at 31 March 2016		<u>48,000</u>	

(1 mark)

## (b) Peter Lau

## Income statement for the year ended 31 March 2016

	\$	\$	\$	
Sales (183,500+1,100)		184,600		0.5
Less: Returns inwards		<u>1,100</u>	183,500	0.5
Less: Cost of goods sold				
Opening inventory		18,000		} 0.5
Purchases	90,000			
Less: Returns outwards	<u>500</u>			
	89,500			0.5
Carriage inwards	<u>800</u>	90,300		0.5
		108,300		
Less: Closing inventory		<u>20,000</u>	88,300	} 0.5
Gross profit			95,200	0.5
Add: Discounts received			<u>1,055</u>	0.5
			96,255	
Less: Expenses				
Wages and salaries (balancing figure)		71,800		0.5
Discounts allowed		<u>2,300</u>	74,100	0.5
Net profit			<u>22,155</u>	

(5 marks)

(c)

(i)	<u>Leading</u> – Peter <u>motivates</u> his subordinates <u>to fulfill the goal of / give direction to</u> produce small domestic electric appliances <u>through development of innovative products</u> . (1)	1
(ii)	Laissez-faire leadership style (1)	3
	Nowadays, the producers of small domestic electric appliances face severe price competition and innovative products are the key to success. Since Laissez-faire leadership will <u>promote freedom of expression</u> which is very important to <u>the use of creativity such as product design</u> , it is most suitable to current situation of the company. (1)	
	Remarks: ‘Subordinates like to face challenges’ or ‘Subordinates can work independently and are highly motivated’ are not relevant in this case.	
	It may <u>lead to chaos</u> when workers just focus on their own tasks and <u>fail to cooperate</u> with each other. (1) Or <u>Inexperienced and passive workers</u> may feel <u>frustrated and helpless</u> without adequate guidance and instructions. (1)	

## Question 5

(a)

Mary			
Trial Balance as at 30 November 2016			
	Dr	Cr	
	\$	\$	
Accounts payables (11,070 – 9,000/96%)		1,695	0.5
Bank overdraft (10,250 + 9,000 – 5,000)		14,250	0.5
Cash (12,400 – 5,000)	7,400		} 0.5
Accounts receivables	38,200		
Donation from a business associate		800	0.5
Sales (52,320 + 600)		52,920	} 0.5
Returns inwards	600		
Inventory at 1 January 2016	10,000		} 0.5
Rent received		150	
Discounts received (1,300 + 9,000/96%*4%)		1,675	0.5
Purchases (38,000 – 1,500)	36,500		0.5
Drawings	1,500		0.5
Capital (balancing figure)		22,710	0.5
	<u>94,200</u>	<u>94,200</u>	

&lt;5 marks&gt;

## (b) Current assets:

Cash	\$	7,400	
Accounts receivable		38,200	
Inventory at 30 Nov 2016		<u>13,000</u>	58,600 (Any two fig. correct → 0.5)
Less: Current liabilities:			
Accounts payable		1,695	
Bank overdraft		<u>14,250</u>	<u>15,945</u>
Net current assets		<u>42,655</u>	(All five fig. correct → 1))

## (c)

(i)	<p>“Authority and responsibility” has been violated in this case. (1)</p> <p><u>Authority and responsibility are not in balance.</u> i.e. the managers took up the responsibility of marketing and accounting departments but no authority of making decisions was given to them. (1)</p>	2
	Acceptable answers: The CEO, Mary, should also delegate the appropriate authority of making decisions to both managers (besides assigning the responsibility to them only).	
(ii)	<ul style="list-style-type: none"> <li>- Reduce the workload of the CEO (Mary).</li> <li>- Provide training opportunities for subordinates to develop their skills and talents.</li> <li>- Enhance subordinates’ job satisfaction.</li> <li>- Strengthen subordinates’ sense of responsibility.</li> </ul> <p>(Any one)</p>	1
(iii)	<ul style="list-style-type: none"> <li>- Consider whether the subordinates have the required abilities and sense of responsibility.</li> <li>- Consider the importance of the task. i.e. the most important task should not be delegated.</li> <li>- Consider the urgency of the task. i.e. the most urgent task should not be delegated.</li> <li>- Consider whether adequate training/support could be provided to subordinates.</li> </ul> <p>(Any one)</p>	1

&lt;4 marks&gt;

&lt;Total:10 marks&gt;