

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS &  
HONG KONG ASSOCIATION FOR BUSINESS EDUCATION  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION  
2018/19  
BUSINESS, ACCOUNTING AND FINANCIAL STUDIES  
MOCK EXAMINATION  
PAPER 1  
(SUGGESTED MARKING SCHEME)**

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

**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****Part I****Question 1**

(a)	<p>The social factor that may affect the decision:</p> <ul style="list-style-type: none"> <li>- Age distribution: Horror movie is not suitable for children and the decision will be affected by the proportion of adult population. / Young people are fond of excitement and the decision will be affected by the proportion of young population matters.</li> <li>- Sex Ratio: Men prefer action and horror movies more than women. Therefore, larger male population will have greater advantage to the project.</li> <li>- Education level: The technical requirements to produce a 3D movie are demanding and hence requires technical workforce with higher education level. / The education level of the audience improves and they demand for high quality 3D movies.</li> <li>- Local culture: The culture of a country which prefers a taste for adventure / prefers high tech 3D movies will be a favourable condition for 3D horror movie and have greater advantage to the project.</li> </ul> <p>(any 1 of the above: 1 mark for title and 1 mark for elaborations, max. 2 marks)</p>	2
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(b)	Unity of Command	1
(c)	<p>Problem:</p> <p>Conflicting instructions from two different superiors may confuse Katy / may diminish Katy's working efficiency.</p> <p>Or Too much workload assigned by two superiors for Katy.</p> <p>Or Individual superior could not monitor Katy's work effectively. (1)</p> <p>Method to fix the problem:</p> <p>Recruit another employee and assign the new employee and Katy to be the direct subordinate of Ben and Jerry respectively.</p> <p>Or Only allow one superior to assign work to Katy so that the superior could accurately comprehend her workload</p> <p>Or Katy should report to one superior for her working progress (1)</p>	2

## Question 2

(a)	<p>Pre-retirement stage (1)</p> <p>Financial needs:</p> <ul style="list-style-type: none"> <li>- Retirement planning / Saving for retirement / Supporting future daily living expenditures</li> <li>- Medical insurance / Future medical expenses</li> </ul> <p>(max. 1 mark for any relevant point)</p>	2
(b)	<p>Market risk / Systematic risk / Non-diversifiable risk (1)</p> <p>A possible reason for market risk to occur:</p> <ul style="list-style-type: none"> <li>- Financial tsunami may cause massive changes in economic conditions.</li> <li>- Wars may induce unstable political environment.</li> <li>- Sudden occurrence of a catastrophe such as major earthquake may disrupt the whole economic system.</li> </ul> <p>(Max. 1 mark for each relevant point)</p>	2

## Question 3

(a)	<p>Business entity concept / Entity concept (1) has been violated.</p> <p>In this case, the antique vase is used in the company (to attract more customers) and <u>should be recorded in the company's book</u> but not in David's entity separately. (1)</p> <p>Note: Historical cost concept is not involved. The cash drawing is actually \$120,000 and the cost of the vase is \$100,000.</p>	2
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(b)	<table> <tr> <td>Dr. Antique vase</td><td>\$100,000</td><td>(1/2)</td></tr> <tr> <td>Cr. Drawings or Capital</td><td>\$100,000</td><td>(1/2)</td></tr> </table>	Dr. Antique vase	\$100,000	(1/2)	Cr. Drawings or Capital	\$100,000	(1/2)	1
Dr. Antique vase	\$100,000	(1/2)						
Cr. Drawings or Capital	\$100,000	(1/2)						

(c)	<p>Step 1: He should set <u>performance standard</u>, such as setting <u>an acceptable upper limit of complaints</u>.</p> <p>Step 2: He should measure the <u>actual performance</u>, such as identifying <u>the number of complaints received recently</u>.</p> <p>Step 3: He should <u>compare the actual performance with the standard</u> such as deciding whether <u>the number of complaints received from customers is higher or lower than expected</u>.</p> <p>Step 4: He should <u>take corrective actions</u> such as <u>replacing the store keeper</u> if the <u>complaints are mainly about the service quality</u> / <u>revising the performance standard to a more reasonable level</u>.</p> <p>(1 mark for each correct step with relevant example in sequence, max. 4 marks)</p>	4
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<p>The interrelationship between financial management and marketing management:</p> <ol style="list-style-type: none"><li>1. The marketing managers help to launch surveys to assess feasibility of developing the market and its market potential, such as assessing the volume of sales. Such information will help the financial manager to compile the cash budget or to finance the required capital.</li><li>2. In accordance with the budget, the financial managers will arrange the required capital using the most suitable financing options while the marketing managers use it for the marketing activities. This is to ensure that enough financial resources is made available for carrying out the marketing plan.</li><li>3. Financial manager could formulate the policy for debts collection policy for the marketing department to determine a competitive sales strategy.</li></ol> <p>(2 marks for each relevant point, max. 4 marks)</p>	4
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### Question 5

2

=64% (1/2)

$=50\%$  (1/2)

2018 Net profit percentage

$$= 1400/5000 = 28\% \text{ (1/2)}$$

$$= 1200/8000 = 15\% \text{ (1/2)}$$

Max 3  
marks

The net profit percentage decreased and at the same time gross profit percentage also decreased too. (1)

The drop in gross profit percentage ( $64\% - 50\% = 14\%$ ) is even greater than the drop in net profit percentage ( $28\% - 15\% = 13\%$ ) Or

The percentage increase in cost of goods sold (by 122.2%) is greater than the percentage increase in total expenses (by 55.6%) (1)

In order to improve the situation, Alibee should either request the franchisor to cut the unit cost price or reduce the sales discount in the sales promotion. (1)

(5 marks)

(b)	<p>Nominal accounts are accounts that will be closed off at the end of an accounting cycle or whose balances will be shown in the income statement. (1/2)</p> <p>Sales, Cost of goods sold, Returns inwards, Royalty fee, Other operating expenses.</p> <p>(1/2 for any one of the above)</p>	1
(c)	<p>Argument for joining the present franchise:</p> <ul style="list-style-type: none"> <li>- The goodwill of the franchised shop did attract customers and created profit for the shop.</li> <li>- Franchised shop is easy to set up as the franchisor provides constructive advice to Alibee.</li> <li>- Alibee can obtain various supports from the franchisor such as marketing, inventory supplies, accounting and management.</li> <li>- Alibee enjoys the benefits of buying stocks in bulk through the franchisor.</li> </ul> <p>(1 mark for any one, max two)</p>	2
	<p>Argument against joining the present franchise:</p> <ul style="list-style-type: none"> <li>- Alibee is required to pay promotional and royalties fees to the franchisor irrespective of whether or not a profit is earned.</li> <li>- Alibee losses her independence in operating her business as the franchisor has much control over the operations. e.g. no choice to buy from other suppliers.</li> </ul> <p>(1 mark for any one, max two)</p>	2

## Question 6

(a)

Marks

Trade payables			
2018		\$'000	
Dec 31	Discounts received	3	
Dec 31	Bank	770	
Dec 31	Balance c/d	30	
		<u>803</u>	

2018		\$'000	
Dec 31	Purchases	803	
		<u>803</u>	

1

1/2 marks for any two correct answers

Kingsley

\*

## Income statement for the year ended 31 December 2018

	\$'000	\$'000	\$'000	
Turnover			1,500	*
Less: Cost of Sales				
Purchases (803,000 + 130,000 (0.5) – 20,000 (0.5))	913			1
Add: Carriage inwards	<u>15</u>	928		0.5
Less: Closing inventory ( <b>Balancing figure</b> )		<u>40</u>	<u>888</u>	0.5
Gross profit			612	*
Add: Discounts received		3		*
Royalty fee		<u>100</u>	<u>103</u>	0.5
			715	
Less: Operating Expenses			<u>450</u>	*
Net profit			<u>265</u>	*

\* 1/2 marks for every two items i.e. maximum 1.5 marks

(5 marks)

(b)	Real accounts are accounts whose balances will be carried forward to the next accounting cycle Or those accounts will appear in the statement of financial position. (1/2) Inventory or Trade payables (1/2)	1
(c)	Argument for changing the form of ownership from sole proprietorship to partnership: - Business risk is shared by partners. - Division of work between partners (with different expertise and knowledge contributed to the business by different partners) (1 mark for any one)	2
	Argument against changing the form of ownership from sole proprietorship to partnership: - Bound by the decisions of all partners - Lower operational efficiency. - Share of profit with John (1 mark for any one)	2

**End of Paper**