# Marking Schemes

## General Notes on Marking

1.  Teachers are strongly advised to conduct their own internal standardisation procedures using the marking scheme before the actual marking begins. After standardisation, teachers should adhere to the marking scheme to ensure a uniform standard of marking within the school.

2.  The marking scheme may not exhaust all possible answers for each question. Teachers should exercise their professional discretion and judgment in accepting alternative answers that are not in the marking scheme, but are correct and well-reasoned.

3.  In questions asking for a specified number of reasons or examples etc., and a student gives more than the required number, the extra answers should not be marked. For instance, in a question asking students to provide two examples, and a student gives three, only the first two should be marked.

4.  The general guidelines for answers which are awarded 0 to 3 marks each are as follows:

    | | | |
    |---|---|---|
    | 0 marks | : | irrelevant or ambiguous answer |
    | 1 mark | : | relevant phrases containing key words that answer the question |
    | 2 / 3 marks | : | a relevant point or answer with a brief explanation of the concept/key words and/or illustration of how it is related to the given scenario |

## PAPER 1

**SECTION A**

| Question No. | Key | | Question No. | Key | |
|---|---|---|---|---|---|
| 1. | A | (76%) | 16. | B | (77%) |
| 2. | B | (73%) | 17. | A | (55%) |
| 3. | A | (68%) | 18. | B | (51%) |
| 4. | C | (52%) | 19. | C | (67%) |
| 5. | D | (67%) | 20. | A | (70%) |
| 6. | B | (64%) | 21. | D | (70%) |
| 7. | C | (67%) | 22. | A | (54%) |
| 8. | D | (38%) | 23. | C | (71%) |
| 9. | A | (48%) | 24. | B | (62%) |
| 10. | D | (55%) | 25. | D | (60%) |
| 11. | D | (75%) | 26. | D | (50%) |
| 12. | B | (72%) | 27. | D | (74%) |
| 13. | B | (74%) | 28. | C | (70%) |
| 14. | A | (58%) | 29. | C | (61%) |
| 15. | C | (65%) | 30. | B | (68%) |

*Note: Figures in brackets indicate the percentages of candidates choosing the correct answers.*

## SECTION B    PART 1

### QUESTION 1

(a)
- – operates in more than one country
- – Pizza Deli operates in Italy, London and Sydney respectively

1
1

(b) Disadvantages:
- – limited autonomy: e.g. need to follow the standards and guidelines stipulated in the franchise agreement
- – need to pay royalties to the franchisor even when making a loss
- – subject to the success and failure/reputation of the franchisor

(2 marks for each relevant disadvantage, max. 4 marks)

4

6 marks

### QUESTION 2

Marks

(a) Factors:
- – repayment history/delinquency record: e.g. if Johnny had repaid past loans on time, his personal credit record would be better
- – record of bankruptcy: e.g. if Johnny had been bankrupt at an earlier time, his personal credit record would be worse
- – credit history: e.g. if Johnny had applied for credit successfully in the past and his usage of credit was appropriate, his personal credit record would be better
- – financial situations: e.g. if Johnny's current outstanding debt amount is low, his personal credit record would be better

(2 marks for each relevant factor, max. 4 marks)

4

(b) Characteristics:
- – specific: e.g. does not define 'all Hong Kong people' and 'know' clearly
- – measurable: e.g. the goal is vague and not expressed in numerical form; there is no means to measure whether 'all Hong Kong people' know the brand name
- – realistic/attainable: the goal may not be achievable

(2 marks for each relevant characteristic, max. 4 marks)

4

8 marks

**QUESTION 3**

(a)

Purchases

| | 2018 | | $ | | | | |
|---|---|---|---|---|---|---|---|
| 0.5 | Dec 1 | Cash at bank | 5 000 | | | | |

Cash at bank

| | 2018 | | $ | 2018 | | $ | |
|---|---|---|---|---|---|---|---|
| 0.5 | Dec 30 | Jacky | 7 600 | Dec 1 | Purchases | 5 000 | 0.5 |

Sales

| | | | | 2018 | | $ | |
|---|---|---|---|---|---|---|---|
| | | | | Dec 22 | Jacky | 8 000 | 0.5 |

Jacky

| | 2018 | | $ | 2018 | | $ | |
|---|---|---|---|---|---|---|---|
| 0.5 | Dec 22 | Sales | 8 000 | Dec 30 | Cash at bank | 7 600 | 0.5 |
| | | | | Dec 30 | Discounts allowed | 400 | 0.5 |

Discounts allowed

| | 2018 | | $ | | | $ | |
|---|---|---|---|---|---|---|---|
| 0.5 | Dec 30 | Jacky | 400 | | | | |

(4)

(b) (i) Real account: Jacky account, Cash at bank account — 1

(ii) Nominal account: Purchases account, Sales account, Discounts received account, Discounts allowed account — 1
(1 mark for each example, max. 2 marks)

6 marks

**PART 2**

**QUESTION 4**

Marks

(a) (i) Gross profit ratio = $1 495 000/$2 300 000 x 100% = 65.00% — 1

(ii) Net profit ratio = $345 000/$2 300 000 x 100% = 15.00% — 1

(iii) Capital as at 31 December 2018 = $1 827 500 + $345 000 = $2 172 500
Average capital = ($1 827 500 + $2 172 500) / 2 = $2 000 000
Return on capital employed = $345 000/$2 000 000 = 17.25% — 2

(b) As compared with 2017, Au's firm was relatively less efficient in using its owners' capital to generate profits in 2018. — 1

(c) Division of work — 1

(d) Advantages:
- higher productivity and efficiency/practice makes perfect
- facilitates automation: e.g. use of machines and equipment
- time-saving: e.g. simplified training, saves time in switching from task to task
(2 marks for each relevant advantage, max. 4 marks) — 4

10 marks

(a)

Au's firm
Statement of financial position as at 31 December 2018

| Non-current assets | $ | $ | |
|---|---|---|---|
| Machinery | | 2 182 500 | 0.5 |
| | | | |
| **Current assets** | | | |
| Inventory | 100 000 | | 0.5 |
| Cash at bank | 140 000 | | 0.5 |
| | 240 000 | | |
| **Less: Current liabilities** | | | |
| Trade payables | 250 000 | (10 000) | 0.5 |
| | | 2 172 500 | |
| **Financed by** | | | |
| Capital, as at 1 January 2018 | | 1 827 500 | 0.5 |
| Add: Net profit | | 345 000 | 0.5 |
| | | 2 172 500 | |
| | | | (3) |

(b)   Current ratio = $240 000/$250 000 = 0.96 : 1                1

Comments:
- the current ratio is lower than 1:1; the firm may have difficulty in repaying its       1
  short-term debts
- as compared with 2017, the liquidity of the firm was poorer due to its lower current
  ratio
  (1 mark for each relevant comment, max. 1 mark)

(c)   Unity of command                                                        1

(d)   Advantages:
- avoid conflicting instructions causing confusion to subordinates: e.g. avoid work        4
  assignments being given by different managers
- facilitate supervision of subordinates: e.g. clearly define lines of authority,
  responsibility and accountability to avoid conflicts between managers
  (2 marks for each relevant advantage, max. 4 marks)

                                                                        **10 marks**

**END OF PAPER 1**

**SECTION A**

**QUESTION 1**

Marks

(a) Inventory turnover:

$$\frac{\$210\,700}{(\$153\,500 + \$86\,400)/2} = \frac{\$210\,700}{\$119\,950} = 1.76 \text{ times}$$

2

(b) Trade receivables turnover:

$$\frac{\$298\,200 - \$11\,600}{(\$95\,300 + \$58\,200)/2} = \frac{\$286\,600}{\$76\,750} = 3.73 \text{ times}$$

2

(c) Total assets turnover:

$$\frac{\$298\,200}{\$144\,800 + \$153\,500 + \$95\,300 + \$22\,100} = \frac{\$298\,200}{\$415\,700} = 0.72 \text{ times}$$

2

(d) Gearing ratio:

$$\frac{\$95\,000}{\$95\,000 + \$70\,000 + \$124\,800} = \frac{\$95\,000}{\$289\,800} = 32.78\%$$

2

**8 marks**

**QUESTION 2**

Marks

(a)

**Cash at bank**

| 2018 | $ | 2018 | | $ | |
|---|---|---|---|---|---|
| 0.5 Balance b/d (Balancing figure) | 360 000 | Trade receivables (ii) | | 3 900 | 0.5 |
| 0.5 Interest income (i) | 2 400 | Trade receivables (iii) | | 6 300 | 0.5 |
| | | Trade payables (v) | | 96 000 | 0.5 |
| | | Balance c/d | | 256 200 | 0.5 |
| | 362 400 | | | 362 400 | |

(3)

**Bank reconciliation statement as at 31 December 2018**

| | $ | $ | |
|---|---|---|---|
| Balance as per bank statement | | 300 000 | 0.5 |
| Add: Uncredited deposits (vi) | | 23 100 | 0.5 |
| | | 323 100 | |
| Less: Incorrect credit transfer (iv) | 5 200 | | 1 |
| Unpresented cheques (vi) | 61 700 | 66 900 | 0.5 |
| Adjusted balance as per cash at bank account | | 256 200 | 0.5 |

(3)

(b) Reasons:
- insufficient balance in drawer's account
- wrong drawee's name/drawer's signature
(1 mark for each relevant reason, maximum 2 marks)

(2)

**8 marks**

**QUESTION 3**

(a)

|  | Product | | |
|---|---|---|---|
|  | **A** | **B** | **C** |
|  | $/unit | $/unit | $/unit |
| Selling price | 365 | 390 | 225 |
| Less: <u>Variable costs</u> | | | |
| Direct materials | (80.5) | (95.0) | (45.5) |
| Direct labour | (60.5) | (61.0) | (40.0) |
| Variable manufacturing overheads | (24.0) | (24.5) | (20.5) |
| Variable selling and administrative expenses | (21.5) | (21.5) | (21.5) |
| Contribution margin per unit | 178.5 | 188.0 | 97.5 | (2) |

(b) Fixed manufacturing overhead absorption rate $= \dfrac{\$440\,000}{20\,000 \text{ hours}} = \$22$ per machine hour

|  | Product | | |
|---|---|---|---|
|  | **A** | **B** | **C** |
| Fixed manufacturing overheads absorbed | $55.0 | $88.0 | $33.0 |
| Machine hours required per unit | 2.5 hours | 4 hours | 1.5 hours | (2) |

(c)

|  | Product | | | |
|---|---|---|---|---|
|  | **A** | **B** | **C** | |
| Contribution margin per machine hour (a/b) | $71.4 | $47 | $65 | 1.5 |
| Ranking by contribution/machine hour | 1 | 3 | 2 | |
| Total machine hours required | 11 250 | 2 300 | 6 450 | 1.5 |
|  | (2.5×4 500) | (20 000 −11 250− 6 450) | (1.5×4 300) | |
| **Units to be produced** | **4 500** | **575** | **4 300** | 1 |
|  |  | (2 300/4) |  | (4) |

8 marks

(a)

### Tracy Limited
### Income statement for the year ended 31 December 2018

| | $ | $ | Marks |
|---|---|---|---|
| Sales | | 3 254 000 | 0.5 |
| Less: Cost of goods sold | | | |
| Opening inventory | 344 000 | | 0.5 |
| Add: Purchases | 2 130 000 | | 0.5 |
| | 2 474 000 | | |
| Less: Closing inventory | 445 000 | 2 029 000 | 0.5 |
| Gross Profit | | 1 225 000 | |
| Add: Gain on disposal of short-term investments | | 134 000 | 0.5 |
| | | 1 359 000 | |
| Less: Expenses | | | |
| Administrative expenses | 816 170 | | 2 |
| ($408 370 – $36 000×3/12 + $10 000 + $70 800 + 336 000) | | | |
| Selling and distribution expenses | 475 750 | | 0.5 |
| Debenture interest ($600 000 × 4% × 8/12) | 16 000 | 1 307 920 | 0.5 |
| Net profit | | **51 080** | 0.5 |

(6)

(b)

### Tracy Limited
### Statement of financial position as at 31 December 2018

| Assets | $ | $ | Marks |
|---|---|---|---|
| Non-current assets | | | |
| Equipment ($3 360 000 – $1 160 000 - $336 000) | | 1 864 000 | 0.5 |
| Current assets | | | |
| Inventory | 445 000 | | 0.5 |
| Short-term investments | 816 250 | | 0.5 |
| Trade receivables | 136 000 | | 0.5 |
| Prepaid expenses ($36 000 × 3/12) | 9 000 | | 0.5 |
| Cash at bank | 409 000 | 1 815 250 | 0.5 |
| Total assets | | 3 679 250 | |
| Equity and liabilities | | | |
| Equity | | | |
| Ordinary share capital | | 2 465 000 | 0.5 |
| Retained profits ($186 370 + **$51 080** – $40 000) | | 197 450 | 1 |
| General reserve | | 40 000 | 0.5 |
| | | 2 702 450 | |
| Non-current liabilities | | | |
| 4% Debentures | | 600 000 | 0.5 |
| Current liabilities | | | |
| Trade payables | 292 000 | | 0.5 |
| Accrued expenses [$10 000 + $70 800 + ($16 000 – $12 000)] | 84 800 | 376 800 | 1 |
| Total equity and liabilities | | 3 679 250 | |

(7)

13 marks

**QUESTION 5**

(a) (i)

| Statement to calculate the sales for the year 2018 | | |
|---|---|---|
| | $ | |
| Balance of trade receivables as at 31 December 2018 ($88 100 + $28 610) | 116 710 | 1 |
| Add: Receipts from customers ($782 320 – $28 610) | 753 710 | 0.5 |
| Sales for the year 2018 | 870 420 | 0.5 |
| | | (2) |

(ii)

| Statement to calculate the purchases for the year 2018 | | |
|---|---|---|
| | $ | |
| Balance of trade payables as at 31 December 2018 ($101 680 – $31 080) | 70 600 | 1 |
| Add: Payment to suppliers ($202 000 + $31 080) | 233 080 | 0.5 |
| Purchases for the year 2018 | 303 680 | 0.5 |
| | | (2) |

(iii)

| Statement to calculate the net book value of equipment as at 31 December 2018 | | |
|---|---|---|
| | $ | |
| Cost of equipment | 80 000 | 0.5 |
| Less: Accumulated depreciation ($80 000 x 10%) | 8 000 | 1 |
| Net book value as at 31 December 2018 | 72 000 | 0.5 |
| | | (2) |

(iv)

| Statement to calculate drawings by Mr Lee during 2018 | | |
|---|---|---|
| | $ | |
| Drawings from bank | 30 200 | 0.5 |
| Drawings of inventory ($17 640÷210%) | 8 400 | 1 |
| Drawings by Mr Lee during 2018 | 38 600 | 0.5 |
| | | (2) |

(b) - Matching                                                                                                           1
    - links revenue with its relevant expenses or costs                                                                  1
    - the use of equipment could generate revenue for the business, the cost of the equipment should                     1
      therefore be allocated over its estimated useful life

                                                                                                                        (3)

                                                                                                            **11 marks**

**QUESTION 6**

(a) (i) Contribution margin ratio = $\dfrac{(\$1\,800\,000 - \$800\,000 - \$250\,000 - \$156\,000)}{\$1\,800\,000}$ x 100% = 33%  (2)

(ii) Total fixed costs: $190\,000 + \$139\,400 + \$90\,000 = \$419\,400$

Sales required: $\dfrac{(\$419\,400 + \$300\,000)}{33\%} = \$2\,180\,000$  (3)

(b)

**Owen Limited**
**Income statement for the quarter ended 31 March 2019**

|  | $ | $ |  |
|---|---|---|---|
| Sales ($1 800 000 x 120% x 95%) |  | 2 052 000 | 0.5 |
| Less: Variable costs |  |  |  |
| - Direct materials ($800 000 x 120% x 92%) | 883 200 |  | 0.5 |
| - Direct labour ($250 000 x 120%) | 300 000 |  | 0.5 |
| - Production overheads ($156 000 x 120%) | 187 200 | 1 370 400 | 0.5 |
| Contribution margin |  | 681 600 | 1 |
| Less: Fixed costs |  |  |  |
| - Production overheads | 210 000 |  | 0.5 |
| - Administrative expenses | 139 400 |  | 0.5 |
| - Selling and distribution expenses ($90 000 + $10 000) | 100 000 | 449 400 | 0.5 |
| Net profit |  | 232 200 | 0.5 |

(5)

(c) Advantages:
   – facilitates decision-making as fixed costs are sunk costs, which are irrelevant
   – facilitates prediction on the changes in profits when there are changes in selling price, sales volume or variable costs
   (2 marks for each advantage, maximum 2 marks)

(2)

12 marks

## QUESTION 7

**Marks**

(a)(i)

### Revaluation

| | | 2019 | $ |
|---|---|---|---|
| | | Jan 1 | |
| 0.5 Motor vans ($574 000 – $390 000) | 184 000 | Property | 346 000  0.5 |
| 0.5 Allowance for doubtful debts | 42 000 | Trade receivables | 2 000  1 |
| Profit on revaluation: | | | |

| | | | | |
|---|---|---|---|---|
| | Capital - Ron (2/5) | 48 800 | | |
| 0.5 | Capital - Ann (2/5) | 48 800 | | |
| | Capital - Ben (1/5) | 24 400 | 122 000 | |
| | | | 348 000 | 348 000 |

(3)

(a)(ii)

### Capital

| | 2019 | Ron $ | Ann $ | Ben $ | Carol $ | 2019 | Ron $ | Ann $ | Ben $ | Carol $ | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Jan 1 | | | | | |
| 1 | Goodwill | | 90 000 | 60 000 | 30 000 | Balance b/d | 1 160 000 | 798 000 | 698 000 | | 0.5 |
| 0.5 | Loan from Ron | 900 000 | | | | Revaluation | 48 800 | 48 800 | 24 400 | | 0.5 |
| 0.5 | Cash at bank | 380 800 | | | | Goodwill | 72 000 | 72 000 | 36 000 | | 0.5 |
| 1.5 | Balance c/d | | 828 800 | 698 400 | 700 000 | Equipment | | | | 50 000 | 0.5 |
| | | | | | | Cash at bank | | | | 680 000 | 0.5 |
| | | 1 280 800 | 918 800 | 758 400 | 730 000 | | 1 280 800 | 918 800 | 758 400 | 730 000 | |

(6)

(a)(iii)

### Ann, Ben and Carol
### Statement of financial position as at 1 January 2019

| | $ | $ | |
|---|---|---|---|
| **Non-current assets** | | | |
| Property ($1 000 000 + $346 000) | | 1 346 000 | 0.5 |
| Equipment ($360 000 + $50 000) | | 410 000 | 0.5 |
| Motor vans | | 390 000 | 0.5 |
| | | 2 146 000 | |
| **Current assets** | | | |
| Inventory | 283 000 | | 0.5 |
| Trade receivables, net ($240 000 – $42 000 + $2 000) | 200 000 | | 1 |
| Cash at bank ($287 000 + $680 000 – $380 800) | 586 200 | | 1 |
| | 1 069 200 | | |
| **Less: Current liabilities** | | | |
| Trade payables | 88 000 | | 0.5 |
| Loan from Ron | 900 000 | 81 200 | 1 |
| | | 2 227 200 | |
| **Financed by** | | | |
| Capital – Ann | | 828 800 | |
| Ben | | 698 400 | 0.5 |
| Carol | | 700 000 | |
| | | 2 227 200 | |

(6)

**QUESTION 7 (Cont'd)**

(b)

| Appropriation account for the quarter ended 31 March 2019 | $ | $ | |
|---|---|---|---|
| Net profit for the quarter ($270 000 - ($900 000 × 10%) × 3/12) | | 247 500 | 1 |
| Less: Partner's salary - Ben ($30 000 × 3/12) | | 7 500 | 0.5 |
| | | 240 000 | |
| | | | |
| Share of profits | | | |
|   —    Ann (3/5) | | 114 000 | 0.5 |
|   —    Ben (2/5) | | 76 000 | 0.5 |
|   —    Carol | | 50 000 | 0.5 |
| | | 240 000 | |
| | | | (3) |

(c)   Reasons:                                                    (2)
        —    valuation may be subjective
        —    relationship with future economic benefit is not easily identifiable or measurable
    (1 mark for each relevant reason, maximum 2 marks)

**20 marks**

(a)

### The Journal

|  |  | Dr $ | Cr $ |  |
|---|---|---:|---:|---:|
| (i) | Discounts allowed | 175 | | 0.5 |
| | Discounts received | 715 | | 0.5 |
| |     Suspense | | 890 | 0.5 |
| (ii) | Suspense | 840 | | 0.5 |
| |     Purchases | | 840 | 0.5 |
| (iii) | Suspense | 430 | | 0.5 |
| |     Salaries | | 430 | 0.5 |
| (iv) | Sales | 7 400 | | 0.5 |
| | Accumulated depreciation | 6 500 | | 0.5 |
| | Loss on disposal | 2 400 | | 0.5 |
| |     Office equipment | | 16 300 | 0.5 |
| (v) | Returns outwards | 1 200 | | 0.5 |
| | Purchases | 2 100 | | 0.5 |
| |     Suspense | | 3 300 | 0.5 |
| (vi) | Share application | 280 000 | | 0.5 |
| |     Ordinary share capital | | 200 000 | 0.5 |
| |     Cash at bank | | 80 000 | 0.5 |
| (vii) | Loan to director | 35 000 | | 0.5 |
| |     Trade payables | | 35 000 | 0.5 |
| | Interest receivables (35 000 x 6% x 3/12) | 525 | | 0.5 |
| |     Interest income | | 525 | 1 |
| (viii) | Trade receivables | 2 360 | | 0.5 |
| |     Sales | | 2 360 | 0.5 |
| (ix) | Rental deposit | 17 000 | | 0.5 |
| |     Cash at bank | | 17 000 | 0.5 |
| | | | | (13) |

(b)

### Suspense account

| | | $ | | | $ | |
|---|---|---:|---|---:|---:|---:|
| 1 | Difference as per trial balance | 2 920 | Discounts allowed (i) | | 175 | 0.5 |
| 0.5 | (ii)  Purchases | 840 | Discounts received (i) | | 715 | 0.5 |
| 0.5 | (iii)  Salaries | 430 | Returns outwards (v) | | 1 200 | 0.5 |
| | | | Purchases (v) | | 2 100 | 0.5 |
| | | 4 190 | | | 4 190 | |
| | | | | | | (4) |

(c)

| (vii) | Error of principle | 1 |
|---|---|---|
| (viii) | Error of complete reversal of entries | 1 |
| (ix) | Error of omission | 1 |
| | | (3) |

**20 marks**

**END OF PAPER 2A**

# Paper 2B
# Business Management Module

## SECTION A

### QUESTION 1

**Marks**

**6**

Steps:
1. forecast manpower supply: e.g. staff turnover rate, retirement
2. compare manpower demand and supply: e.g. identify shortage of manpower
3. formulate action plans and follow up: e.g. recruitment and training
(2 marks for each relevant step in correct sequence, max. 6 marks)

**6 marks**

### QUESTION 2

**Marks**

(a) Primary data are data collected for a specific research purpose, while secondary data are data readily available/collected for some other purposes.

**2**

(b) Other sampling techniques:
  – convenience sampling: e.g. leave a questionnaire on the table for customers to fill in
  – stratified random sampling: e.g. customers are divided into three groups, i.e. breakfast, lunch and dinner, and random samples are drawn from each group
(1 mark for the name, 1 mark for the application, max. 4 marks)

**2**

**2**

**6 marks**

### QUESTION 3

**Marks**

(a) Reasons:
  – the risk is speculative: there are possibilities of both loss and gain from operations
  – the loss is not accidental: operating loss is controllable
  – difficult to measure the probability of operating loss: difficult for the insurance company to calculate the premium
(2 marks for each relevant reason, max. 4 marks)

**4**

(b) Types of insurance:
  – employees' compensation insurance: e.g. to cover medical expenses and compensation claims if employees are injured at work
  – motor insurance: e.g. to cover losses due to traffic accidents
(2 marks for each relevant type of insurance, max. 2 marks)

**2**

**6 marks**

### QUESTION 4

**Marks**

(a)(i) Inventory turnover = $\dfrac{\$335\,000}{(\$25\,000 + \$50\,000)/2}$ = 8.93 times

**2**

(ii) Main objective:
  – To maintain an adequate level of inventory at minimum inventory costs

**2**

(b) Forms:
  – commission, bonus, merit pay: e.g. commission is usually calculated based on sales revenue to motivate salespersons
(2 mark for each relevant form, max. 2 marks)

**2**

**6 marks**

**QUESTION 5**

Marks

(a) the internal rate of return of the project (8%) is higher than the required rate of return (i.e. cost of capital 6%), the renovation project should be adopted

2

(b)(i) Reasons:
- higher financial burden and risk: e.g. fixed obligation to repay principal and interest
- lower flexibility and control: e.g. banks may impose restraints on fund usage
- difficult to solicit further borrowing/higher interest rate as the current gearing ratio is high

(2 marks for each relevant reason, max. 4 marks)

4

(ii) equity financing

1

Disadvantages:
- dilution of control
- profit sharing with new investors
- dividend is not tax-deductible

(2 marks for each relevant disadvantage, max. 4 marks)

4

(c) Reasons:
- convenience to customers: e.g. issuing e-tickets and showing schedules on website
- closer customer relationship: e.g. can reply to customers' enquiries online, recommend movies to customers based on their purchase record
- enhanced promotion: e.g. can show advertisements or trailers on website to stimulate customers' interest

(2 marks for each relevant reason, max. 4 marks)

4

(d)(i) skimming pricing strategy

1

(ii) Reasons:
- the new technology could attract customers of low price sensitivity
- short-term profits would increase as the margin is higher

(2 marks for each relevant reason, max. 2 marks)

2

———————
18 marks
———————

## QUESTION 6

(a)     Elements of promotion mix:        4
- sales promotion: e.g. offering discounts, gifts, lucky draws
- public relations: e.g. sponsorship of sports events, use of celebrities to promote the products
- personal selling: e.g. introducing product features to customers

(2 marks for each relevant element, max. 4 marks)

(b) (i)    actual sales volume is lower than budgeted sales volume       1

(ii)    Remedial actions:        4
- price: e.g. set a competitive price to attract customers
- product: e.g. explore new product features to distinguish from the competitor, provide better after-sales services
- place: e.g. adopt different distribution channels such as setting up an online store

(2 marks for each remedial action, max. 4 marks)

(c) (i)    Because they are hygiene factors, which could only prevent employees from feeling dissatisfaction, but could not lead to job satisfaction and motivation.      2

(ii)    Ways:        4
- offer promotion opportunities
- adjust job content to make it more interesting and challenging
- empowerment and job autonomy

(2 marks for each relevant way, max. 4 marks)

(d) (i)    On-the-job training methods:        1
- Example: coaching, job rotation

(1 mark for each relevant method, max. 1 mark)

(ii)    Advantages:        2
- trainees can receive immediate feedback for prompt improvement
- more relevant to the job and more practical: e.g. trainees can apply the knowledge and skills learnt from the training to their work

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

18 marks

# SECTION C

## QUESTION 7

(a)    Differences:

| | Business market | Consumer market |
|---|---|---|
| Complexity of buying decisions | − formalised procedure<br>− more participants (multiple decision participants) | − simpler personal decisions |
| Nature of demand/ Purposes of purchases | − derived demand, e.g. for production and operation<br>− relatively more frequent purchases and in larger amounts<br>− fewer buyers | − direct consumption, e.g. home use computers<br>− relatively less frequent purchase and in smaller amounts<br>− more buyers |
| Relationship between buyer and seller | − usual to maintain a long-term and close relationship with the computer company | − less likely to maintain a long-term and close relationship with the computer company |
| Price sensitivity of buyers | − relatively less sensitive | − relatively more sensitive |

(3 marks for each relevant difference, max. 10 marks)

(b)

| Recruitment channel | Advantage |
|---|---|
| Job advertisement | − wide coverage<br>− cost-effective |
| Employee referral | − less screening is required<br>− new employees adapt to the environment more easily |
| Employment agencies | − possess expertise to find suitable candidates, could provide professional recruitment advice<br>− more recruitment networks to seek suitable applicants |
| Job fairs | − more efficient<br>− cost-effective and time-saving |

10

(3 marks for each relevant channel and its advantages, max. 10 marks)

<div align="right">

20 marks
</div>

**QUESTION 8**

(a)    Factors:
- segment size and affordability: e.g. whether the segment is substantial enough for the company to enter; purchasing power of the customers in the segment
- segment growth rate: e.g. whether the segment has high growth rate for the company's development
- segment structural attractiveness: e.g. whether the segment has intense competition or customers have high bargaining power; availability of substitutes
- company objectives: e.g. whether the entry to a segment matches company's long-term objectives
- company capability: e.g. whether the company possesses relevant skills and resources to provide satisfactory products to the segment

(3 marks for each relevant factor, max. 10 marks)

(b)

| Capital investment appraisal method | Limitation |
|---|---|
| Payback period | − ignoring time value of money<br>− ignoring cash flows after the payback period<br>− failing to indicate the absolute worth of the project |
| Net present value | − difficulty in ascertaining an appropriate discount rate<br>− difficulty in comparing projects of different lives/risks/initial outlays<br>− ignoring the size of different projects |
| Accounting rate of return | − ignoring time value of money<br>− ignoring the cash flows generated from the projects<br>− profits could be manipulated |
| Internal rate of return | − failing to reflect the increase in the company's value<br>− may give conflicting results when compared to the net present value method for mutually-exclusive projects<br>− multiple internal rate of return when there are negative cash flows |

(3 marks for the limitations of each method, max. 10 marks)

20 marks

**END OF PAPER 2B**