

## Marking Schemes

This document was prepared for markers' reference. It should not be regarded as a set of model answers. Candidates and teachers who were not involved in the marking process are advised to interpret its content with care.

### 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.	C (47%)	16.	B (64%)
2.	D (54%)	17.	A (68%)
3.	C (64%)	18.	C (41%)
4.	B (74%)	19.	D (66%)
5.	D (89%)	20.	C (48%)
6.	B (77%)	21.	A (78%)
7.	A (93%)	22.	B (30%)
8.	B (33%)	23.	B (88%)
9.	A (81%)	24.	A (48%)
10.	D (58%)	25.	D (55%)
11.	C (49%)	26.	C (74%)
12.	A (74%)	27.	B (60%)
13.	B (30%)	28.	A (61%)
14.	C (79%)	29.	D (68%)
15.	A (74%)	30.	D (61%)

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

## SECTION B PART 1

QUESTION 1		Marks
(a)	Technological factors: payment platform/network security/internet coverage (2 marks for each relevant factor, max. 2 marks)	2
	Economic factors: exchange rate/income level/trade barriers (2 marks for each relevant factor, max. 2 marks)	2
(b)	Strategies: - global sourcing - outsourcing of production processes - technology transfer/enhancement of production processes (2 marks for each relevant strategy, max. 4 marks)	4
		<u>8 marks</u>

QUESTION 2		Marks
(a)	Characteristics: - managed by owner - limited capital - mainly local operations (1 mark for each relevant characteristic, max. 2 marks)	2
(b)	Contributions: - promote innovations (new products/new markets) - promote market competition/provide more high-quality products or services to consumers (2 marks for each relevant contribution, max. 4 marks)	4
		<u>6 marks</u>

QUESTION 3		Marks
(a) (i)	Generous dividend policy: - shareholders could have higher returns/are more optimistic regarding the prospects of the company. This would attract more people to buy the company shares, which would lead to an increase in the share price	2
(ii)	Limit the number of visits to Hong Kong: - sales to visitors will be reduced, the profitability of the company will be lowered, shareholders will sell the shares of the company which will lead to a drop in the share price	2
(b)	- Going concern assumption: assumes that an entity will continue its operation in the foreseeable future, the entity has neither the intention nor the need to liquidate or reduce its scale of operations significantly  - The non-current assets should be valued at their liquidation value/net realisable value.	1
		<u>6 marks</u>

**PART 2****Marks****QUESTION 4**

(a)

Mandy Statement of financial position as at 31 December 2017			\$	\$	\$
<b>Non-current assets</b>				166 000	0.5
Equipment				48 000	0.5
Motor van				<u>214 000</u>	
<b>Current assets</b>				26 000	0.5
Inventory				13 000	0.5
Trade receivables				<u>16 000</u>	0.5
Cash at bank				<u>55 000</u>	
<b>Less: Current Liabilities</b>					
Bank loan	30 000			17 000	0.5
Trade payables	8 000	<u>38 000</u>		<u>231 000</u>	0.5
<b>Financed by</b>					
Capital, as at 1 January 2017 (Balancing figure)				188 600	0.5
Add: Net profit (\$220 000 – (\$98 000 – \$26 000) – \$105 600)				<u>42 400</u>	1
				<u>231 000</u>	(5)

(b) Autocratic leadership 1

(c) Disadvantages:

- employees' job satisfaction and commitment would be lowered/greater resistance from employees
- Mandy has a heavier workload/quality of decision-making depends on Mandy's capabilities

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

10 marks

**QUESTION 5****Marks**

(a)

2018			Cash at bank		
		\$			\$
Jan 1	Balance b/d	20 000	Jan 7	Trade payables	9 506
			Jan 10	Rent	7 000
					0.5
					0.5

  

2018			Purchases		
		\$			\$
0.5	Jan 3	Trade payables	9 800		

  

2018			Trade payables		
		\$			\$
0.5	Jan 7	Cash at bank	9 506	Jan 3	Purchases
0.5	Jan 7	Discounts received	294		9 800
					0.5

  

2018			Discounts received		
		\$			\$
			2018		
			Jan 7	Trade payables	294
					0.5

  

2018			Rent		
		\$			\$
0.5	Jan 10	Cash at bank	7 000		

  

2018			Sales		
		\$			\$
			2018		
			Jan 25	Trade receivables	12 000
					0.5

  

2018			Trade receivables		
		\$			\$
0.5	Jan 25	Sales	12 000		

(5)

(b) Unity of direction 1

(c) Reasons: 4

- create coherence among employees to achieve the same objectives
- avoid management confusions/conflicts among different departments
- help to build up team spirit

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

10 marks**END OF PAPER 1**

**Paper 2A**  
**Accounting Module**

**SECTION A**

<b>QUESTION 1</b>		<b>Marks</b>
(a)	(i) Cash Book (ii) Purchases Journal (iii) Returns Outwards Journal (iv) General Journal (v) Sales Journal (vi) Returns Inwards Journal (vii) General Journal (viii) Cash Book (ix) Returns Outwards Journal (x) General Journal (0.5 mark for each answer, max. 5 marks)	5
(b)	Amy Company account in Purchases Ledger Returns outwards account in General Ledger	1 1
(c)	- segregation of duties which could reduce frauds - classification of the transactions so as to facilitate the postings to the ledger accounts (1 mark for each relevant function, max. 1 mark)	1
		<u>8 marks</u>

<b>QUESTION 2</b>		<b>Marks</b>
(a) (i)	Cash at bank	

0.5	2017	\$	2017	\$
0.5	Balance b/d	50 000	Trade receivables	(i) 30 000
0.5	Trade payables	(ii) 6 300	Trade receivables	(iv) 4 430
1	Trade payables	(v) 9 310	Balance c/d	<b>31 180</b>
		<u>65 610</u>		<u>65 610</u>
				(4)

<u>Bank reconciliation statement as at 31 December 2017</u>		
Adjusted balance as per cash book		\$
Add: Unpresented cheque - 723881 (iii)		<b>31 180</b>
		<u>10 390</u>
Less: Uncredited cheque (vi)		<u>41 570</u>
Balance as per bank statement		<u>4 100</u>
		<u><b>37 470</b></u>
		(2)

(b)	- a cheque dated with a future date - Cheque #723958	1 1 (2)
-----	---	---------------

8 marks

**QUESTION 3**

**Marks**

(a)

**Sang Manufacturing Company**  
**Income statement for the year ended 31 December 2017**

	\$	
Sales	150 000	0.5
<u>Less: Cost of goods sold</u>		
Direct material costs	18 000	0.5
Direct labour costs (Balancing figure)	24 920	1
Direct expenses	7 000	0.5
Prime costs	49 920	0.5
Manufacturing overheads absorbed (Balancing figure)	35 080	1
Total manufacturing costs (\$150 000 - \$48 000)/1.2	85 000	0.5
Gross Profit	65 000	0.5
Less: Administrative and selling expenses (\$85 000 x 0.2)	17 000	0.5
Net profit	<u>48 000</u>	0.5
	(6)	

- (b) Total conversion cost:  $(\$85\ 000 - \$18\ 000)$  or  $(\$24\ 920 + \$7\ 000 + \$35\ 080) = \$67\ 000$  (1)
- (c) Royalties/depreciation on non-current assets acquired specifically for the production of a product (1)

8 marks

## SECTION B

### QUESTION 4

Marks

(a)

	Capital					
	Jay	Joe	Tom	Jay	Joe	Tom
	\$	\$	\$	\$	\$	\$
0.5 Goodwill	24 000	24 000	32 000	Balance b/d	229 000	144 000
0.5 Balance c/d (w1)	325 000	200 000	350 000	Goodwill	48 000	32 000
				Revaluation	72 000	48 000
				Bank/Cash		382 000
	<u>349 000</u>	<u>224 000</u>	<u>382 000</u>	<u>349 000</u>	<u>224 000</u>	<u>382 000</u>

$$(w1) [(\$325\,000 + \$200\,000) / 60\%] \times 40\% = \$350\,000$$

(4)

(b)

#### Appropriation account for the year ended 31 December 2017

		\$	\$
Net profit for the year (w2)		728 600	2
Add: Interest on drawings	- Jay	(\$180 000 x 5% x 8/12)	6 000
	- Joe	(\$120 000 x 5% x 6/12)	3 000
		<u>9 000</u>	0.5
		<u>737 600</u>	
Less: Interest on capital	- Jay	(\$325 000 x 4%)	13 000
	- Joe	(\$200 000 x 4%)	8 000
	- Tom	(\$350 000 x 4%)	14 000
		<u>35 000</u>	0.5
		<u>702 600</u>	
Less: Salaries to partner	- Tom	(\$22 000 x 12)	264 000
		<u>264 000</u>	0.5
		<u>438 600</u>	
Share of profits:			
- Jay (3/10)		131 580	
- Joe (3/10)		131 580	
- Tom (4/10)		175 440	
		<u>438 600</u>	

$$(w2) \$4\,002\,600 - \$1\,085\,400 - (\$2\,412\,000 - \$264\,000) - (\$75\,600 - \$35\,000) = \$728\,600$$

(6)

- (c) As Tom's salary has been paid at the end of each month, there is no outstanding salary owing to him and so it will not be included in the balance of his current account. (1)

11 marks

QUESTION 5	Marks
------------	-------

(a) (i) Working capital ratio

$$2017: \frac{\$364\,000 + (\$190\,000 - \$17\,000) + \$128\,000}{\$202\,000 + \$15\,000 + \$90\,000} = \frac{\$665\,000}{\$307\,000} = 2.17:1 \quad 2$$

(ii) Inventory turnover

$$2017: \frac{\$136\,500 + \$778\,050 - \$364\,000}{(\$136\,500 + \$364\,000) / 2} = \frac{\$550\,550}{\$250\,250} = 2.20 \text{ times} \quad 2$$

(iii) Average trade receivables collection period

$$2017: \frac{(\$110\,000 + \$190\,000 - \$17\,000) / 2}{\$780\,000 - \$17\,000} \times 365 = \frac{\$141\,500}{\$763\,000} \times 365 = 67.69 \text{ days} \quad 2$$

(iv) Average trade payables repayment period

$$2017: \frac{(\$58\,000 + \$202\,000) / 2}{\$778\,050 \times 8\%} \times 365 = \frac{\$130\,000}{\$622\,440} \times 365 = 76.23 \text{ days} \quad 2$$

(8)

(b) (i) Gearing ratio

$$2017: \frac{\$180\,000}{\$180\,000 + \$700\,000 + (\$158\,000 - \$17\,000)} \times 100\% = \frac{\$180\,000}{\$1\,021\,000} \times 100\% = 17.63\% \quad 1$$

$$2016: \frac{\$753\,800}{(\$753\,800 + \$200\,000 + \$42\,000)} \times 100\% = \frac{\$753\,800}{\$995\,800} \times 100\% = 75.70\% \quad 1$$

(2)

(ii) Comment:

- the solvency has improved in 2017 1
  - the company issued ordinary share capital during 2017
  - the company repaid a large portion of long term loan during 2017 2
- (1 mark for each relevant comment, max. 2 marks) (3)

13 marks

**QUESTION 6**

(a)	Fixed cost:	\$	
	- Rent ( $\$350\ 000 \times 1.15$ )	402 500	
	- Salary and other operating expenses ( $\$741\ 000 + \$316\ 000$ ) $\times 1.05$	1 109 850	
	- Depreciation	<u>81 970</u>	
		<u>1 594 320</u>	2
	Breakeven point (sales dollars) = $\$1\ 594\ 320 / (1 - 48\%) = \$3\ 066\ 000$		0.5
	Monthly margin of safety = $\$3\ 500\ 000 - \$3\ 066\ 000 = \$434\ 000$		1.5
			(4)
(b)	(i) Statement to calculate incremental revenues and incremental costs	\$	
	<u>Incremental revenues</u>		
	- Food truck ( $\$80 \times 3\ 000 \times 24$ )	5 760 000	0.5
	- Restaurant ( $\$100 \times 1\ 500 \times 24$ )	<u>3 600 000</u>	0.5
		<u>9 360 000</u>	
	<u>Incremental costs</u>		
	- Variable production cost ( $\$9\ 360\ 000 \times 48\%$ )	4 492 800	1
	- Fixed cost:		
	Cost of new truck ( $\$1\ 000\ 000 - \$300\ 000$ )	700 000	1
	Cost of equipment	604 000	0.5
	Salary ( $\$600\ 000 \times 2$ )	1 200 000	0.5
	Other costs ( $\$528\ 000 \times 2$ )	<u>1 056 000</u>	0.5
		<u>8 052 800</u>	0.5
			(5)
	(ii) As there are incremental profits of \$1 307 200 brought in by the food truck project, Yummy Limited should join the Food Truck Pilot Scheme.		1
(c)	Sunk cost:		
	- Cost incurred by a decision made in the past. It cannot be changed and will not affect future decisions.		1
	Example: net book value of the idled cooking stove		
			1
			(2)
			<u>12 marks</u>

**SECTION C**

**QUESTION 7**

(a) (i)	Marks
---------	-------

KK Company Limited Income statement for the year ended 31 December 2017		
Sales (\$4 470 000 - \$270 000)	\$	\$
Less: Returns inwards		4 200 000 1
		<u>60 000</u> 0.5
		<u>4 140 000</u>
Less: <u>Cost of goods sold</u>		
Opening inventory	930 000	0.5
Add: Purchases	<u>2 467 000</u>	0.5
	3 397 000	
Less: Closing inventory (Balancing figure)	<u>637 000</u>	0.5
		<u>2 760 000</u>
Gross profit (\$4 140 000 x 1/3)		1 380 000 1
Less: <u>Expenses</u>		
Administrative expenses (Workings)	899 350	3.5
Selling and distribution expenses (\$757 000 x 45%)	340 650	0.5
Debenture interest (\$800 000 x 4% x 6/12)	<u>16 000</u>	1
		<u>1 256 000</u>
Profit before tax		124 000 0.5
Less: Profits tax		<u>12 500</u> 0.5
Profit after tax		<u>111 500</u>
		(10)

Workings

$$(\$757\ 000 \times 55\%) + \$344\ 000 + \$9\ 000 + \$130\ 000 = \$899\ 350$$

$$\text{Depreciation expenses} = (\$2\ 020\ 000 - \$250\ 000 - \$50\ 000) \times 20\% = \$344\ 000$$

$$\text{Loss on disposal: } [\$50\ 000 - (\$50\ 000 \times 20\% \times 2) - \$21\ 000] = \$9\ 000$$

(ii)

Statement to calculate the retained profits as at 31 December 2017

	\$	\$	
Profit after tax	111 500	0.5	
Add: Retained profits, 1 January 2017	<u>74 000</u>	0.5	
	<u>185 500</u>		
Less: Transfer to general reserve	10 000	0.5	
2016 Final dividend	48 000	1	
2017 Interim dividend	<u>23 000</u>	0.5	
Retained profits, 31 December 2017	<u>81 000</u>	0.5	
	<u>104 500</u>		
		(3)	

	Marks
<b>QUESTION 7 (con'd)</b>	
(b) - realisation principle	1
- revenue should be recognised only when goods are dispatched and accepted by the customers, or after the services have been provided	1
- as the goods were to be delivered to the customers on 4 January 2018, the sales revenue should be recognised in 2018	1
	(3)
(c) Reasons:	
- facilitates intra-period and inter-company comparison of the performance of the business	1
- avoids manipulation of profit by changing the accounting policy	1
	(2)
(d) The ability to pay a dividend would not be affected because:	
- the company's ability to pay dividends depends on the availability of retained profits and cash	
- retained profits transferred to the general reserve are still available for distribution of dividends	
(1 mark for each relevant reason, max. 2 marks)	(2)

20 marks

**QUESTION 8**
**Marks**
**(A)**

(a)	The Journal	Dr	Cr	
		\$	\$	
(i)	Retained profits Trade receivables	9 700	9 700	0.5 0.5
(ii)	Retained profits (\$294 000 / 0.98 - \$9 700) x 3% - (\$294 000 / 0.98) x 2% Allowance for doubtful accounts	2 709	2 709	0.5 0.5
(iii)	Retained profits Accrued expenses	32 000	32 000	0.5 0.5
(iv)	Prepaid expenses Suspense Cash at bank Retained profits	7 040 14 080 14 080 7 040		0.5 0.5 0.5 0.5
(v)	Retained profits - Sales Accumulated depreciation - Motor vehicles (\$88 560 + \$12 288) Retained profits - Loss on disposal Motor vehicles Retained profits - Depreciation	50 000 100 848 11 440 150 000 12 288		0.5 1 0.5 0.5 0.5
<b>OR</b>				
	Retained profits (\$50 000 + \$11 440 - \$12 288) Accumulated depreciation - motor vehicles (\$88 560 + \$12 288) Motor vehicles	49 152 100 848 150 000		1.5 1 0.5
		(8)		

Workings:

Net book value of motor vehicles on 1 January 2017 =  $\$150\ 000 \times 0.8^4 = \$61\ 440$

Accumulated depreciation - Motor vehicles on 1 January 2017

=  $\$150\ 000 - \$61\ 440 = \$88\ 560$  (2013 to 2016)

Depreciation overcharged in 2017 =  $\$61\ 440 \times 20\% = \$12\ 288$

Loss on disposal =  $\$61\ 440 - \$50\ 000 = \$11\ 440$

## QUESTION 8 (con'd)

(b)	Bright Company Limited Statement of financial position as at 31 December 2017	\$	\$
<b>Assets</b>			
<b>Non-current assets</b>		<b>1 967 948</b>	<b>1</b>
Motor vehicles, net (\$2 017 100 - \$150 000 + \$100 848)			
<b>Current assets</b>		<b>403 040</b>	<b>0.5</b>
Inventory		281 591	1
Trade receivables , net (\$294 000 - \$9 700 - \$2 709)		7 040	0.5
Prepaid expenses		433 320	1
Cash at bank (\$447 400 - \$14 080)		1 124 991	
Total assets		<b>3 092 939</b>	
<b>Equity and liabilities</b>			
<b>Equity</b>			
Share capital		1 800 000	0.5
Retained profits (Workings)		690 539	2
		<b>2 490 539</b>	
<b>Current liabilities</b>			
Trade payables		507 700	0.5
Accrued expenses (\$62 700 + \$32 000)		94 700	1
		<b>602 400</b>	
<b>Total equity and liabilities</b>		<b>3 092 939</b>	
			(8)

Workings:

Statement to calculate the adjusted retained profit as at 31 December 2017

	\$
Retained profits before adjustment	777 060
Add: Management fee overstated	7 040
Depreciation overcharged	12 288
	<b>796 388</b>
Less: Bad debts	
Increase in allowance for doubtful accounts	9 700
(\$294 000/0.98 - \$9 700) x 3% - (\$294 000 / 0.98) x 2%	2 709
Staff training costs omitted	32 000
Sales overstated	50 000
Loss on disposal of motor vehicle	11 440
Adjusted retained profits	<b>690 539</b>

**QUESTION 8 (con'd)**

**Marks**

**(B)**

	Product A	Product B	Product C	
	\$	\$	\$	
Price	220	660	480	
Direct materials	30	40	35	
Direct labour	120	320	200	
Variable overheads	10	10	10	
Contribution per unit	60	290	235	
Direct labour hours per unit	3 hours	8 hours	5 hours	
Contribution per direct labour hour	\$20	\$36.25	\$47	2
Production priority	3rd	2nd	1st	

	Direct labour hours required	Production quantity	
Product A (with contract signed)	3 000	1 000	0.5
Direct labour hours left ( $20\ 000 - 3\ 000$ ) = 17 000			
Product C	8 000	1 600	0.5
Product B [ $(17\ 000 - 8\ 000)/8$ ]	9 000	1 125	1
	20 000		(4)

20 marks

**End of Paper 2A**

**Paper 2B**  
**Business Management Module**

**SECTION A**

**Marks**

**QUESTION 1**

6

Risk management strategies:

- risk reduction: e.g. installation of defence devices, recruitment of armed security forces
  - risk transfer: e.g. taking out of marine insurance which covers the risk of piracy and kidnapping
  - risk assumption: e.g. paying the ransom out of company's reserve in case of kidnapping
- (2 marks for each relevant strategy, max. 6 marks)

6 marks

**QUESTION 2**

**Marks**

6

Product strategies:

- variety of tours: e.g. offering different kinds of theme tours and personalised trips
  - quality of services: e.g. assigning reliable and professional tour guides
  - add-on services: e.g. providing travel packages including airline service, hotel service, car rental service, etc.
  - branding: e.g. establishing the brand name of the agency
- (2 marks for each relevant strategy, max. 6 marks)

6 marks

**QUESTION 3**

**Marks**

6

Internal communication programmes:

- mentorship programmes
- induction programmes
- regular staff meetings
- social gatherings

(2 marks for each relevant programme, max. 6 marks)

6 marks

**QUESTION 4**

**Marks**

2

- (a) Trade receivables turnover:  
 $\$350\,000/\$123\,500 = 2.83 \text{ times}$

- (b) Comments:

4

- credit terms: e.g. more lenient, longer discount period, lower discount rate, longer credit period
  - credit standard: e.g. being lower than that of the other firms in the same industry,
  - collection policy: e.g. being more lenient in debt collection procedure
- (2 marks for each relevant comment, max. 4 marks)

6 marks

**SECTION B****QUESTION 5**

	<b>Marks</b>
(a)(i) Operating cycle:	
- the food truck buys materials, converts the materials into desserts and collects cash from selling the desserts	2
(ii) Reason:	
- the average time required to collect money from customers is shorter, as sales are mainly made on a cash basis	2
(2 marks for each relevant reason, max. 2 marks)	
(b) Limitations:	4
- the budget plan is based on estimates and hence the effectiveness of budgetary control depends on the accuracy of the estimates made	
- the business environment changes rapidly, the budgets are rigid if they are not revised to meet the changing environment	
- qualitative information is not shown in the budgets	
(2 marks for each relevant limitation, max. 4 marks)	
(c)(i) Marketing concept:	2
- analysis of customers' needs and taking of appropriate measures to satisfy those needs in order to make profit	
- delivering of the desired satisfaction more effectively and efficiently than its competitors	
(2 marks for each relevant point, max. 2 marks)	
(ii) Example:	2
- designing a dessert menu which meets the tastes and preference of its customers	
- provision of user-friendly cutlery and packages which enable the customers to taste the dessert more easily	
(2 marks for each relevant example, max. 2 marks)	
(d) Other bases for market segmentation:	6
- demographic: e.g. age, gender, income, occupation, family life cycle	
- psychographic: e.g. social class, lifestyle (health consciousness), personality	
- behavioral: e.g. benefits sought (convenience), occasions (sightseeing), frequency of visit	
(2 marks for each relevant basis, max. 6 marks)	

---

18 marks

---

	<b>Marks</b>
<b>QUESTION 6</b>	
(a) Disadvantages:	6
<ul style="list-style-type: none"> <li>- limitations in performance appraisal: e.g. bias and errors will lead to unfair bonus</li> <li>- low motivational effect: e.g. staff may think that their performance contributes little to the company's accounting profit/the accounting profit can be manipulated by financial tactics</li> <li>- implementation costs: e.g. conducting of seminars to explain the new system to the staff</li> <li>- staff may feel insecure as their annual income/bonus is uncertain</li> </ul> <p>(2 marks for each disadvantage, max. 6 marks)</p>	
(b)(i) The 4 <sup>th</sup> paragraph: Rose, the Human Resources Manager, responded, ‘...Our staff are positive, energetic and willing to take up responsibility.’	1
(ii) Ways:	4
<ul style="list-style-type: none"> <li>- more recognition: e.g. award, verbal praise</li> <li>- more autonomy: e.g. more opportunity to make decisions</li> <li>- more challenging tasks: e.g. designing the route and schedule of delivery</li> <li>- provision of training for employees' personal development: e.g. enhancing communication skills with customers</li> </ul> <p>(2 marks for each relevant way, max. 4 marks)</p>	
(c) - the project should not be accepted	1
Reasons:	
<ul style="list-style-type: none"> <li>- as the net present value is negative, the acceptance of the project will decrease the net worth of the company</li> <li>- the accounting rate of return ignores the time value of money/cash flows</li> </ul> <p>(2 marks for each relevant reason, max. 2 marks)</p>	2
(d) Non-financial factors:	4
<ul style="list-style-type: none"> <li>- reducing injuries to staff</li> <li>- enhancing staff morale</li> <li>- enhancing company's reputation/fulfilling corporate social responsibility</li> </ul> <p>(2 marks for each relevant non-financial factor, max. 4 marks)</p>	

---

18 marks

## SECTION C

### QUESTION 7

	Marks
(a) Cost components:	8
<ul style="list-style-type: none"><li>- carrying cost: cost incurred on holding inventory in hand, e.g. opportunity cost of money tied up in inventories, obsolescence, etc.</li><li>- ordering cost: cost incurred on placing and receiving an order, e.g. costs of communicating with supplier, transportation cost, etc.</li></ul>	
Minimising total inventory cost: <ul style="list-style-type: none"><li>- as the order size increases, fewer orders are required, which leads to a decrease in the total ordering cost, whereas the average amount of inventory in hand will increase, resulting in an increase in total carrying cost</li><li>- the optimal order quantity represents a compromise between these two costs, i.e. when total ordering cost equals total carrying cost, the total inventory cost is minimised</li></ul> <p>(2 marks for each relevant description, max. 8 marks)</p>	
(b) Factors:	12
<ul style="list-style-type: none"><li>- costs: e.g. commissions and other fees paid to middlemen</li><li>- control of the sales of bicycles: e.g. whether the company wishes to have more control over the sales and promotion of their bicycles</li><li>- relationship with customers: e.g. whether the company wishes to maintain a direct and close relationship with its customers to collect feedback on the products/to provide professional advice to customers</li><li>- expertise of the company, e.g. whether the company possesses an experienced sales team</li><li>- customer base: e.g. whether the company has connection with its potential customers</li></ul> <p>(3 marks for each relevant factor, max. 12 marks)</p>	
	20 marks

### QUESTION 8

	Marks
(a) Data collection methods:	8
<ul style="list-style-type: none"><li>- qualitative research: e.g. conducting in-depth personal interviews or focus group interviews with customers to find out their reasons for learning a particular foreign language and the suitable learning mode</li><li>- survey research: e.g. using questionnaires to collect information on the preferences and needs of potential customers</li><li>- experimental research: e.g. using control groups to find out whether the mode of teaching would have an impact on the learning motivation of potential customers</li><li>- observational research: e.g. conducting trial lessons to observe the behavior of potential customers in the classroom/observe the market situation by recording the number of the foreign language classes offered by competitors</li></ul> <p>(2 marks for each method, max. 8 marks)</p>	
(b) Steps of performance appraisal: <ol style="list-style-type: none"><li>1. set the aim of appraisal and performance standards and communicate with the appraiser and the appraisee</li><li>2. measure and record staff performance, make comparisons between expected and actual performance</li><li>3. provide feedback and listen to staff responses</li><li>4. make human resources decisions: e.g. training and development, promotion, termination, etc.</li></ol> <p>(3 marks for each relevant step, max. 12 marks)</p>	12 20 marks

**END OF PAPER 2B**