

# BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 1

## (Sample Paper)

8.30 am – 9.45 am (1 hour 15 minutes)

This paper must be answered in English

### GENERAL INSTRUCTIONS

- (1) There are **TWO** sections, A and B, in this Paper. Section A consists of multiple-choice questions and Section B contains short questions.
- (2) Answer **ALL** questions in Section A. There are two parts in Section B. Answer **ALL** questions in Part 1 and **ONE** of the two questions in Part 2.
- (3) Answers to Section A should be marked on the Multiple-choice Answer Sheet while answers to Section B should be written in the Answer Book. In the Answer Book, start **EACH** question (not part of a question) on a **NEW** page.
- (4) The Answer Sheet for Section A and the Answer Book for Section B must be handed in separately at the end of the examination.

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### INSTRUCTIONS FOR SECTION A (MULTIPLE-CHOICE QUESTIONS)

- (1) Read carefully the instructions on the Answer Sheet. After the announcement of the start of the examination, you should first stick a barcode label and insert the information required in the spaces provided. No extra time will be given for sticking on the barcode label after the 'Time is up' announcement.
- (2) When told to open this book, you should check that all the questions are there. Look for the words '**END OF SECTION A**' after the last question.
- (3) All questions carry equal marks.
- (4) **ANSWER ALL QUESTIONS.** You are advised to use an HB pencil to mark all the answers on the answer sheet, so that wrong marks can be completely erased with a clean rubber. You must mark the answers clearly; otherwise you will lose marks if the answers cannot be captured.
- (5) You should mark only **ONE** answer for each question. If you mark more than one answer, you will receive **NO MARKS** for that question.
- (6) No marks will be deducted for wrong answers.

This sample paper aims to illustrate the revised Section B rubrics effective from the 2014 examination, and the related changes in the instructions and paper layout. The Section B questions are adapted from past papers as follows:

Question 1 – 2013 Question 1a

Question 2 – 2013 Question 2

Question 3 – 2012 Question 5

Question 4 – 2013 Question 7

Question 5a – Sample Paper (published in 2009) Questions 6a and 6b

5b – 2012 Question 4

Question 6a – 2013 Questions 3a and 3b

6b – 2012 Question 6b

**SECTION A (60 marks) Multiple-choice Questions**

There are 30 questions in this section. Answer ALL questions. Choose the **best** answer for each question.

*The rubrics for Section A remain unchanged.  
Please refer to past papers for questions in this section.*

**End of Section A**

**SECTION B (30 marks) Short Questions****Part 1 (20 marks)** Answer ALL questions in this part.

- Many people are using credit cards to purchase goods and services. Explain two benefits for customers of using credit card. (4 marks)
- Ken owns a fast-food chain business with more than 50 outlets in Hong Kong. He is going to expand his business by offering delivery services all over Hong Kong. Wendy, a business consultant, recommends Ken to establish a telephone hotline centre in the Mainland to take orders from customers in Hong Kong and direct the Hong Kong outlets to deliver the meals.

Explain three types of external factors that would affect Ken's decision on whether to set up a telephone hotline centre in the Mainland. (6 marks)

- The following account information relates to Yip's business for the year ended 31 December 2012:

	\$
Office equipment	220 000
Trade receivables	67 000
Opening inventory	34 000
Closing inventory	42 000
Bank overdraft	17 600
Trade payables	26 300
Loan from Sam's Company (repayable in 2020)	38 000
Opening capital	231 000
Sales	109 000
Purchases	76 100
Rent and rates	12 000
Salaries	9 000
Other operating expenses	7 900
Discounts received	4 100

Prepare the statement of financial position for Yip's business as at 31 December 2012. (5 marks)

- In the sales department of a firm, the manager and the sales representatives discussed and agreed on the sales target for a quarter. Throughout the quarter, the manager met the sales representatives regularly to discuss problems encountered and gave appropriate support. At the end of the quarter, the manager reviewed the performance of the sales representatives and gave them rewards and feedback.
  - Name the principle of effective management applied in the above sales department. (1 mark)
  - From the sales department's point of view, explain two advantages of applying the principle of effective management named in (a). (4 marks)

**Part 2** (10 marks) Answer **ONE** question in this part.

5. John Chan is the owner of a furniture manufacturing and trading business. Most of the furniture was manufactured by his own factory in Hong Kong and the rest was purchased from several manufacturers in Shenzhen.

- (a) The following are the financial ratios of the business for the year ended 31 December 2012:

	Business	Industry average
Turnover	\$1 250 000	\$1 300 000
Gross profit ratio	38%	60%
Net profit ratio	6%	42%
Current ratio	2.8:1	2.3:1
Liquid ratio	0.8:1	1.2:1

- (i) Give one reason why the gross profit ratio and net profit ratio of John's business are much lower than the industry averages. (2 marks)
- (ii) Comment on the liquidity of John's business in 2012. (4 marks)
- (b) John decided to freeze the salary of all staff for one year starting from 1 January 2014 and the following email was drafted to deliver the message:

From: John Chan  
To: All Staff  
Subject: Salary

Dear all,

As you all know, the global economy is deteriorating and many people around the world have lost their jobs. You, especially those with poor qualifications and poor working attitudes, should be glad that you haven't been fired by the company. As the company is already being kind in not laying you off, please don't talk about the salary issue in the future as this has been discussed and finalised.

John

- List two principles of effective communication and give an example of each from the above email to explain why the message is not effectively communicated in this case. (4 marks)

6. Peter was a sole proprietor running a small business without any employees. He knew little about bookkeeping and had trouble recording transactions in a proper way.

(a) For each of the following situations, state the accounting principle or concept that has been violated and give a brief explanation. (6 marks)

(i) Peter bought a pearl necklace worth \$85 000 for his wife with the firm's cheque. He recorded the transaction as follows:

	Dr	Cr
	\$	\$
Sundry expenses	85 000	
Bank		85 000

(ii) Peter bought a notebook computer of \$12 000 for office use with the firm's cheque. He heard from the dealer that its market value at that time was \$14 000 and recorded the transaction as follows:

	Dr	Cr
	\$	\$
Office equipment	14 000	
Bank		12 000
Gain on purchase of office equipment		2 000

(b) Peter went bankrupt on 31 March 2013 and he decided to close the business. Give two types of stakeholders in Peter's business and explain the adverse effect of the closure on each of them. (4 marks)

**END OF PAPER**

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2A**  
**Accounting Module**  
**(Sample Paper)**

10.30 am – 12.45 pm (2 hours 15 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) There are three sections in this paper.
- (2) All questions in Sections A and B are **COMPULSORY**. You are required to answer **ONE** of the two questions in Section C.
- (3) Write your answers in the answer book. Start **EACH** question (not part of a question) on a **NEW** page.

This sample paper aims to illustrate the revised rubrics effective from the 2014 examination. The questions are adapted from past papers as follows:

Question 1 – 2013 Question 1b

Question 2 – 2012 Question 2

Question 3 – 2013 Questions 3

Question 4 – 2013 Questions 4a and 4b

Question 5 – 2013 Question 5a

Question 6 – 2013 Questions 6

Question 7 – 2013 Questions 7a and 7b(1)

– 2013 Question 1a

Question 8 – 2012 Question 9

**SECTION A** (24 marks)

Answer **ALL** questions in this section.

1. Amy Ltd had the following information:

(i) The bank reconciliation statement as at 28 February 2013 was as follows:

	\$
Balance of cash at bank account as at 28 February 2013	62 300
Unpresented cheque - 201542	<u>7 800</u>
Balance as per bank statement as at 28 February 2013	<u><u>70 100</u></u>

- (ii) The cheque 201542, dated 3 September 2012, remained unpresented at 31 March 2013. It is the practice of the bank not to honour cheques outstanding for more than six months.
- (iii) Total receipts from customers and total payments to suppliers by cheque in the month of March 2013 were \$287 000 and \$82 750 respectively. All receipts were banked in March 2013. However, a cheque of \$32 110 from a customer was then found dishonoured on 28 March 2013.
- (iv) During the month of March 2013, a credit transfer of \$125 000 from a customer and dividend income of \$2840 were credited by the bank.
- (v) A management fee of \$8800 accrued for February 2013 was paid by cheque on 4 March 2013.
- (vi) A standing order for rent of \$165 500 for the month of March 2013 was executed by the bank on 8 March 2013.

**REQUIRED:**

Write up the cash at bank account for the month of March 2013. (6 marks)

2. The non-current assets of Moody Company as at 31 December 2011 were as follows:

	Cost	Accumulated depreciation
	\$	\$
Machinery (all purchased in 2008)	3 600 000	3 455 000
Lorries (all purchased in 2009)	1 850 000	1 200 000

The following were transactions relating to the non-current assets of the company during 2012:

- (i) On 1 March 2012, a piece of machinery was bought at a price of \$2 400 000. On the same date, a component costing \$60 000 was installed into the machinery to increase its productivity over the coming four years.
- (ii) On 1 January 2012, a lorry was bought at a price of \$1 900 000. The price included an insurance premium of \$36 000 covering the year ended 31 December 2012.

It is the company's policy to depreciate machinery at a rate of 25% per annum on cost, and lorries at a rate of 20% per annum using the reducing balance method.

**REQUIRED:**

- (a) For Moody Company,
- (1) calculate the depreciation expenses of the machinery for the year ended 31 December 2012; and (3 marks)
  - (2) prepare the accumulated depreciation account of lorries for the year ended 31 December 2012. (3 marks)
- (b) Different methods are used to depreciate the non-current assets of Moody Company. Explain whether such a difference in accounting treatments violates the consistency principle. (2 marks)
- (Total: 8 marks)

3. Hansan Ltd undertakes electrical work according to customers' requirements. It has prepared the following budgeted information for the year 2014:

	\$
Direct material cost	500 000
Direct labour cost	2 850 000
Production overheads	780 000
Administrative overheads	400 000
Budgeted activity levels include:	
Machine hours	5 000 hours
Direct labour hours	60 000 hours

Hansan Ltd uses a plant-wide predetermined production overhead absorption rate based on direct labour hours to allocate production overheads to jobs.

**REQUIRED:**

- (a) Calculate the predetermined production overhead absorption rate for the year 2014. (2 marks)
- (b) State one rationale for Hansan Ltd's choice of using the existing absorption base to calculate its predetermined production overhead absorption rate. (2 marks)

The company has to price a job that would be started and completed in 2014. Information relating to the job is as follows:

- (i) Direct materials: \$250 per metre. 100 metres are required.
- (ii) Direct labour - Electricians: \$60 per hour. 200 hours are required.  
- Apprentices: \$35 per hour. 300 hours are required.

Administrative overheads are allocated to the job based on 25% of production cost. The company maintains a net profit margin of 50%.

**REQUIRED:**

- (c) Calculate the selling price of this job, showing separately the amount of:
    - prime cost
    - production cost
    - total cost
- (6 marks)  
(Total: 10 marks)

**SECTION B** (36 marks)

Answer **ALL** questions in this section.

4. Carrie and Daisy have been in partnership sharing profits and losses in the ratio of 3:2. On 1 January 2012, Carrie retired from the partnership and Ellen was admitted as a new partner. The balances of the partnership before the retirement and admission were as follows:

	Dr.	Cr.
	\$	\$
Capital accounts at 1 January 2012 - Carrie		700 000
- Daisy		650 000
Current accounts at 1 January 2012 - Carrie	72 000	
- Daisy		247 000
Property, net	1 250 000	
Equipment, net	600 000	
Trade receivables	550 000	
Trade payables		275 000
Cash at bank	100 000	
Bank loan (repayable on 31 March 2016)		700 000
	2 572 000	2 572 000

Upon the retirement of Carrie and the admission of Ellen, the partners agreed on the following:

- (i) Ellen brought in \$850 000 cash into the partnership.
- (ii) The balance of Carrie's current account was to be transferred to her capital account on her retirement date.
- (iii) Property was to be revalued at \$2 320 000 and the net book value of equipment was to be decreased by 20%.
- (iv) An allowance for doubtful debts of 4% was to be made.
- (v) A cheque for \$230 000 would be paid to Carrie immediately after her retirement and the remaining balance owed would be left as a long-term interest-free loan to the new partnership.
- (vi) Goodwill was to be valued at \$350 000. No goodwill account was to be maintained in the books.
- (vii) Interest on capital at 4% per annum was to be allowed and Daisy was entitled to a salary of \$5000 per month.
- (viii) Daisy and Ellen were to share profits and losses equally.

**REQUIRED:**

- (a) Prepare the partners' capital accounts in columnar form as at 1 January 2012, showing the retirement of Carrie and admission of Ellen. (6 marks)
  - (b) If the net profit for the year 2012 was \$300 000, prepare the partners' current accounts in columnar form for the year ended 31 December 2012. (4 marks)
- (Total: 10 marks)

5. Mr Luk is a retailer who does not keep proper accounting records for his business. On 31 December 2012, his accountant disappeared suddenly and all cash in hand was stolen. Some of the accounting records were also missing. After investigation, the following information is available:

- (i) All sales were made on cash basis at a uniform mark-up of 40% for the year 2012.
- (ii) A summary of receipts and payments based on the cash at bank account for the year ended 31 December 2012 showed the following:

<u>Receipts</u>	\$
Cash deposit	1 203 000
<u>Payments</u>	\$
Administrative expenses	226 000
Payments to suppliers	987 900
Drawings (by Mr Luk)	120 850
Selling expenses	64 300
Bank charge	20 050
	1 419 100

- (iii) During 2012, selling expenses of \$44 000 were paid in cash.
- (iv) The insurance company had agreed to compensate the business for 50% of the cash stolen.
- (v) Balances of the business as at 31 December were as follows:

	2011	2012
	\$	\$
Office equipment, net (with a cost of \$187 500)	150 000	?
Inventory	123 000	110 900
Cash at bank	392 100	?
Trade payables	149 000	102 800
Accrued administrative expenses	—	1 150
Prepaid selling expenses	20 000	—
Capital	547 000	?
Cash in hand	10 900	? (before stolen)

- (vi) Depreciation is to be provided on office equipment at a rate of 20% per annum using the straight-line method.

**REQUIRED:**

Prepare an income statement for the year ended 31 December 2012, showing the cash loss separately.

(11 marks)

6. Eva Company manufactures stainless steel mailboxes. The budgeted income statement for the year is as follows:

	\$
Sales	960 000
Direct materials cost	(120 000)
Direct labour cost	(150 000)
Fixed production overheads	(190 000)
Variable production overheads	(66 000)
Fixed administrative overheads	(57 000)
Net profit	<u>377 000</u>

**REQUIRED:**

- (a) Compute for the mailboxes
- (1) the contribution margin ratio (as a percentage), (2 marks)
  - (2) the breakeven sales for 2014, and (2 marks)
  - (3) the margin of safety (as a percentage up to two decimal places) for 2014. (2 marks)
- (b) Assume that the management of Eva Company is considering offering a 5% commission on all sales.
- (1) Recompute the contribution margin ratio (as a percentage). (2 marks)
  - (2) Recompute the breakeven sales for 2014 (to the nearest dollar) and state the effect of the sales commission on breakeven sales. (2 marks)
  - (3) If the management expects sales revenues to be increased by \$100 000 because of this, would you recommend Eva Company to offer the sales commission? Show your calculations. (3 marks)
- (c) Why is a decline in the margin of safety an issue of concern to the management of a company? (2 marks)
- (Total: 15 marks)

**SECTION C** (20 marks)

Answer **ONE** question in this section.

7. The balances of Able Company as at 31 December were as follows:

	<b>2011</b>	<b>2012</b>
	\$	\$
4% Long-term loans	67 000	120 000
8% Short-term loans	23 100	60 000
Accounts payables	43 300	100 200
Accounts receivables	37 500	85 864
Bank overdraft	—	15 000
Cash at bank	32 020	—
Cash in hand	200	500
Inventory	79 680	162 936
\$5 Ordinary shares, fully paid	155 000	155 000
Property, plant and equipment, net	254 000	333 622
Retained profits	115 000	132 722

Additional information:

- (i) All sales were made on credit.
- (ii) On 31 December 2010, inventory and accounts receivables were \$88 320 and \$37 260 respectively.
- (iii) Total sales amount shown in the sales journal for 2011 and 2012 amounted to \$454 790 and \$625 942 respectively. Gross profit was \$96 110 for 2011 and \$230 191 for 2012. However, it was then discovered that a sales invoice of 2012 for \$14 000 had been omitted from the records of the books.
- (iv) There had been no change in share capital since 2010. The balance of the retained profits at 31 December 2010 was \$69 521.
- (v) In 2011 and 2012, no tax expenses were incurred and no dividend was declared.

**REQUIRED:**

- (a) Calculate (to two decimal places) the following ratios for 2011 and 2012 (assume 365 days per year):
  - (1) current ratio
  - (2) liquid ratio
  - (3) average accounts receivables collection period
  - (4) inventory turnover (in times)
  - (5) net profit ratio
  - (6) earnings per share

(14 marks)
- (b) Based on the ratios calculated in (a) above, briefly comment on the profitability of Able Company for the year 2012.
 

(3 marks)

The two directors of Able Company believed that the company had a very good reputation in the industry. Director Lee proposed to quantify that at an amount of \$300 000 as goodwill. Director Chan agreed and the bookkeeper credited the amount to sundry revenue on 31 March 2013.

**REQUIRED:**

- (c) State and explain the accounting principle or concept that has been violated.
 

(3 marks)

(Total: 20 marks)

8. After closing all the nominal accounts and preparing the draft income statement, the ledger balances of Dragon Ltd as at 31 December 2012 are as follows:

	Dr.	Cr.
	\$	\$
\$2 Ordinary shares, fully paid		4 000 000
Share premium		319 000
Retained profits as at 31 December 2012		996 500
Inventory as at 31 December 2012	545 000	
Property, plant and equipment		
– Cost	4 800 000	
– Accumulated depreciation as at 31 December 2012		1 240 000
Trade receivables and trade payables	716 400	691 500
Prepayment [ note (vi) ]	424 800	
Cash at bank	760 800	
	7 247 000	7 247 000

During the internal audit process, the following items were discovered:

- (i) The management of the company decided to provide allowance for doubtful debts starting from 2012. An allowance of 5% on outstanding trade receivables should be provided for the year ended 31 December 2012, but no entries had been made in the books.
- (ii) To finance the expansion of the business, the authorised share capital of \$5 000 000 was increased to \$15 000 000 on 15 December 2012. On the same date, 600 000 ordinary shares of \$2 each had been issued at \$6 each. All the monies subscribed had been received and shares had been allotted on 28 December 2012. However, no entries had been made in the books.
- (iii) On 1 December 2012, a five-year 2% debenture of \$900 000 in total had been issued at par. Debenture interest is payable on 31 March and 30 September each year. All the monies subscribed were duly collected. In order to obtain the cash discount of 4% from a supplier, one-quarter of the monies collected was used to pay the supplier during the discount period as the full settlement of its account. However, entries regarding all the above transactions were omitted from the books.
- (iv) A piece of equipment with both cost and accumulated depreciation of \$726 000 on 1 January 2012 was sold for \$156 000 on the same date. The transaction was recorded in the books as cash sales of \$165 000.
- (v) On 31 December 2012, the board of directors of the company resolved to transfer \$135 000 to the general reserve. However, no entries had been made in the books.
- (vi) During the year 2012, advertising expenditure amounting to \$424 800 had been incurred and paid. The company estimated that the sales volume could be increased by 5% and 15% in 2013 and 2014 respectively as a result of the advertising. The book-keeper had therefore recorded the payment for advertising as a prepayment in 2012, to be written off as expenses in 2013 and 2014.

**REQUIRED:**

- (a) Prepare for Dragon Ltd
    - (1) the journal entries necessary for correcting the errors and the omission in (i) to (vi) above (narrations are not required); and (10 marks)
    - (2) the statement of financial position as at 31 December 2012 after taking into the account the above adjustments. (7 marks)
  - (b) Comment on the accounting treatment of advertising expenditure in item (vi). (3 marks)
- (Total: 20 marks)

**END OF PAPER**

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2B**  
**Business Management Module**  
**(Sample Paper)**

10.30 am – 12.45 pm (2 hours 15 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) There are three sections in this paper.
- (2) All questions in Sections A and B are **COMPULSORY**. You are required to answer **ONE** of the two questions in Section C.
- (3) Write your answers in the answer book. Start **EACH** question (not part of a question) on a **NEW** page.

This sample paper aims to illustrate the revised rubrics effective from the 2014 examination. The questions are adapted from past papers as follows:

Question 1 – 2013 Question 1

Question 2 – 2013 Question 2

Question 3 – 2013 Questions 3

Question 4 – 2012 Questions 5

Question 5 – Sample Paper (published in 2009) Question 5

Question 6 – 2013 Questions 7a, 7b, 7c and 7e

Question 7 – 2013 Questions 8a, 8b, 8d(ii) and 8e(i)

Question 8 – 2013 Question 9

Question 9 – 2013 Question 10

**SECTION A** (24 marks)

Answer **ALL** questions in this section.

1. Briefly describe three uses of performance appraisal to a company. (6 marks)
  
2. Explain three types of factors that a company would consider to evaluate the risk of granting credit to a customer. (6 marks)
  
3. From the perspective of customer relationship management, give two reasons why retaining existing customers is more important than attracting new customers. (4 marks)
  
4. State two benefits to a bookstore of using e-marketing to perform its distribution function. (4 marks)
  
5. Explain two disadvantages to a company of using interviews in the recruitment process. (4 marks)

**SECTION B** (36 marks)

Answer **ALL** questions in this section.

6. Yummy Group is a listed fast food chain in Hong Kong, established by Mr Lee twenty years ago.

In a meeting, Mr Lee said, “I want to discuss two issues today. First, as discussed before, the fast food market is saturated, so is it time for us to diversify our business? Second, in view of the recent incidents of food poisoning in some local fast food chains, we have to formulate strategies to manage this risk.”

The Marketing Director, Miss Ma said, “People in Hong Kong are now more health conscious. Instead of focusing our business on fast food, we can diversify our business to the health food market. I propose to set up some organic food restaurants offering health food like fresh fruit juices, salads and sandwiches using organic ingredients. Unlike in our fast food chain, there would be waiters in these restaurants to serve the customers. I have conducted some preliminary studies and found that the middle-class should be our target customers. I have also generated many initial ideas on the menu and will conduct a market research to help sorting out those alternatives that are feasible.”

Mr Lee said, “You have done a good job. However, are you sure that the middle-class is an effective market segment for us? Do we have enough capital to carry out this diversification project?”

Miss Ma remarked, “Based on the criteria for evaluating a market segment, the proposed segment is the most effective. Since the segment is new to us, we have to find ways to promote the organic food restaurants.”

- (a) Suggest two risk management strategies for handling the risk of food poisoning faced by Yummy Group. (4 marks)
- (b) Give two types of data collection method that Miss Ma can use in conducting the market research. Explain each with an example. (4 marks)
- (c) With reference to the criteria for evaluating a market segment, explain why the middle-class is an effective market segment for organic food restaurants. (6 marks)
- (d) With reference to any two elements of the promotion mix, suggest one way each to promote the organic food restaurants. (4 marks)

(Total: 18 marks)

7. Wing Hung is a locally-based department store chain established seventy years ago. Mr Richard is the founder, took over the business forty years ago. He is going to retire and plans to pass the business to his son, Raymond. He has asked Raymond to visit the stores and study the business.

After several store visits, Raymond reported his observations to Richard, "I think our employees lack initiative and their service quality fails to meet today's standard. It seems that they have to follow rigid rules in carrying out their duties."

Richard responded, "I do it this way on purpose. I believe that close supervision and motivation by money are the keys to our success. I pay them salaries at a higher rate than the market level. They are required to listen to my instructions and stick to the existing practices. You should follow my management style in order to be successful."

Raymond replied, "You may be right, maybe we can consider other monetary compensation methods to motivate our employees to perform better. We can also provide some training to enhance their quality of service. In addition, as on-line purchasing is very popular nowadays, we should launch an on-line shopping system. According to my estimation, the initial installation will cost \$12 million and the net cash flows would be \$4 million per year for a useful life of four years."

Richard replied, "Very good. The payback period of the project is short! We can get back the investment very quickly."

Raymond said, "Using the payback period method alone to evaluate the project is not appropriate, we need to calculate its net present value as well."

- (a) With reference to McGregor's Theory X and Theory Y, state three assumptions that Richard holds in relation to managing his employees. Illustrate each with an example. (6 marks)
- (b) Apart from providing above market level salaries, suggest three other types of monetary compensation methods that Wing Hung could adopt to motivate its employees to perform better. (6 marks)
- (c) Give two reasons why it is not appropriate to use the payback period method to evaluate the on-line shopping project. (4 marks)
- (d) Based on Raymond's estimates of the cash flows for the on-line shopping project, and assuming a discount rate of 8% per annum, calculate the net present value of the project (to the nearest dollar). Show your workings. (2 marks)
- (Total: 18 marks)

**SECTION C** (20 marks)

Answer **ONE** question in this section.

8. A retail chain uses accounting ratios and budget variance analysis to evaluate its performance.
- (a) Illustrate with examples what aspects of the retail chain's performance could be evaluated by accounting ratios. (12 marks)
  - (b) Explain the possible causes of budget variance in the retail chain. (8 marks)
9. As its product reaches the growth stage of the product life cycle, a company considers expanding its business and recruiting more managers internally.
- (a) Describe the characteristics of the growth stage of the product life cycle. (12 marks)
  - (b) Explain the advantages to the company of recruiting managers internally. (8 marks)

**END OF PAPER**