

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.

PAPER 1 Compulsory Part

SECTION A

Question No.	Key	Question No.	Key
1.	A (89%)	16.	C (85%)
2.	D (49%)	17.	B (72%)
3.	C (56%)	18.	B (49%)
4.	A (63%)	19.	C (69%)
5.	B (77%)	20.	D (80%)
6.	B (82%)	21.	C (57%)
7.	B (59%)	22.	A (49%)
8.	A (81%)	23.	A (72%)
9.	D (29%)	24.	B (42%)
10.	A (18%)	25.	B (72%)
11.	B (37%)	26.	D (47%)
12.	D (67%)	27.	A (60%)
13.	A (92%)	28.	C (58%)
14.	A (39%)	29.	D (65%)
15.	C (63%)	30.	B (89%)

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

SECTION B

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

QUESTION 1**Marks**

- (a) Benefits: 4
- defer payment: e.g. can purchase goods or services without paying cash instantly
 - safety: e.g. do not need to carry large amounts of cash
 - convenience: e.g. worldwide acceptance
 - privileges: e.g. can enjoy discounts or special gifts
- (2 marks for each relevant benefit, max. 4 marks)

- (b) Reasons: 2
- higher chance of collecting debt on time
 - lower default risk
- (2 marks for each relevant reason, max. 2 marks)

Total: 6 marks**QUESTION 2**

- External factors: 6
- technological, e.g. reliability of telecommunication system
 - social, e.g. language used by operators
 - economic, e.g. wages level, cross-border telephone charge
 - legal, e.g. labour law, licensing regulations
 - physical, e.g. geographical dispersion
 - political, e.g. political stability
- (2 marks for each relevant factor, max. 6 marks)

Total: 6 marks**QUESTION 3**

- (a) – business entity concept
– it assumes a business is separated from its owner
– private transactions of the owner should not be recorded in the books of the business
the bookkeeper should record it as drawings in the books
(1 mark for each relevant point, max. 3 marks) 3

- (b) – historical cost principle
– assets should be recorded at their cost of acquisition or production
– subsequent changes in their market values are to be ignored
– the bookkeeper should record \$12 000 as the cost of the notebook computer in the books
(1 mark for each relevant point, max. 3 marks) 3

Total: 6 marks**QUESTION 4**

- Ways: 3
- store personnel data
 - handle payroll
 - take attendance
 - facilitate staff placement
- (1 mark for each relevant way, max. 3 marks)

Total: 3 marks

PAPER 2A
Accounting Module

General Principles of Marking

1. The answers given in this marking scheme are 'suggestions' only. Other relevant answers will also be accepted.
2. 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'.
3. 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

SECTION A

QUESTION 1

Marks

- (a) Accounting principle/concept violated: 1
- money measurement concept
- Explanations: 2
- only transactions capable of being expressed in monetary terms are included in the accounting records of an entity
 - good reputation cannot be quantified in terms of money and should not be reflected in the financial statements
 - goodwill would be recorded only when it is purchased from an existing business.
- (1 mark for each relevant explanation, max. 2 marks)

	Dr	Cr	
	\$	\$	
Sundry revenue	300 000		½
Goodwill		300 000	½
			(4)

(b)

		Cash at bank		
		\$		
½	2013 March Balance b/d (i)	62 300	2013 March Trade payables (iii)	82 750 ½
1	Trade payable (ii)	7 800	Trade receivables (iii)	32 110 1
½	Trade receivables (iii)	287 000	Accrued management fee (v)	8 800 ½
½	Trade receivables (iv)	125 000	Rental fee (vi)	165 500 ½
½	Dividend income (iv)	2 840	Balance c/d	195 780 ½
		484 940		484 940
				(6)

Total: 10 marks

QUESTION 2

Marks

		Equipment		
2012		\$	2012	
½	Balance b/d	675 000	Disposal of equipment	270 000 ½
1½	Bank: Equipment purchased (\$280 000 + \$12 500)	292 500	Balance c/d	697 500 ½
		967 500		

(3)

		Accumulated depreciation – Equipment		
2012		\$	2012	
1	Disposal of equipment (\$270 000 × 0.2)	54 000	Balance b/d (\$675 000 × 20%)	135 000 1
	Balance c/d	204 300	Depreciation expenses	123 300 2
		258 300	[(675 000 – 270 000) + 292 500 – 81 000] × 20%	
			258 300	

(4)

- (c) Accounting principle/concept violated:
- consistency concept 1
- Explanations: 2
- same accounting policy should be applied on like items across years
 - a change in depreciation method is allowed when it will result in a more true and fair presentation of the firm’s financial position
 - to stabilise operating results over year is not a justifiable reason for the change in depreciation method
- (1 mark for each relevant explanation, max. 2 marks) (3)

Total: 10 marks

QUESTION 3

(a) Production overheads	\$780 000	
Direct labour hours	/ 60 000	
	\$13	2

Predetermined production overhead rate = \$13 per direct labour hour (2)

- (b) As the production of jobs in the company is labour-intensive, the best measure of overhead resources consumed by each job is direct labour hours 2
- (2)

		Job cost card		
		\$	\$	
Direct materials (\$250 × 100)			25 000	
Direct labour				
	Electricians (\$60 × 200)	12 000		
	Apprentices (\$35 × 300)	10 500	22 500	
Prime cost			47 500	2
Production overheads (\$13 × 500)			6 500	
Production cost			54 000	1
Administrative overheads (\$54 000 × 0.25)			13 500	
Total cost			67 500	1½
Profit			67 500	
Selling price			135 000	1½

(6)

Total: 10 marks

SECTION B

QUESTION 4

Marks

(a) **Capital accounts**

	Carrie	Daisy	Ellen		Carrie	Daisy	Ellen	
	\$	\$	\$		\$	\$	\$	
1 Goodwill		175 000	175 000	Balance b/d	700 000	650 000		
½ Current	72 000			Cash			850 000	½
½ Bank	230 000			Gain on revaluation (W1)	556 800	371 200		2
½ Loan from Carrie	1 164 800			Goodwill	210 000	140 000		1
Balance c/d		986 200	675 000					
	<u>1 466 800</u>	<u>1 161 200</u>	<u>850 000</u>		<u>1 466 800</u>	<u>1 161 200</u>	<u>850 000</u>	(6)

(b) **Daisy and Ellen**
Statement of financial position as at 1 January 2012

		\$	\$	
Non-current assets				
Property			2 320 000	½
Equipment			480 000	½
			<u>2 800 000</u>	
Current assets				
Trade receivables		550 000		½
Less: Allowance for doubtful debts		22 000		½
		<u>528 000</u>		
Cash at bank (\$100 000 + \$850 000 – \$230 000)		720 000	1 248 000	1
			<u>4 048 000</u>	
Financed by:				
Capital accounts - Daisy		986 200		} ½
- Ellen		675 000		
			1 661 200	
Current account - Daisy			247 000	½
			<u>1 908 200</u>	
Long-term liabilities				
Loan from Carrie		1 164 800		½
Bank loan		700 000	1 864 800	½
Current liabilities				
Trade payables			275 000	½
			<u>4 048 000</u>	(6)

(c) **Current accounts**

	Daisy	Ellen		Daisy	Ellen	
	\$	\$		\$	\$	
½ Balance c/d	433 224	113 776	Balance b/d	247 000	—	½
			Salary to Daisy	60 000	—	1
			Interest on capital	39 448	27 000	1
			Share of profit (1:1) (W2)	86 776	86 776	1
	<u>433 224</u>	<u>113 776</u>		<u>433 224</u>	<u>113 776</u>	(4)

QUESTION 4 (Cont'd.)**Marks**

- (d) Reasons: 2
- a partner is entitled to get a fair share of the net assets of the company upon his/her retirement
 - fair values of the assets would be reflected through the asset revaluation process
 - holding gains or losses would be recognised through the asset revaluation process
 - the respective share of the gains and losses would be credited and debited to the capital account of the retiring partner and therefore the amount due to/from the partner can be ascertained
- (2 marks for each relevant reason, max. 2 marks) (2)

Total: 18 marks**Workings:**

(W1)	\$
Gain on revaluation of property (\$2 320 000 - \$1 250 000)	1 070 000
- Loss on revaluation of equipment (\$600 000 × 20%)	(120 000)
- Additional allowance for doubtful debts (\$550 000 × 4%)	(22 000)
	<u>928 000</u>

(W2)	\$
Profit before appropriations	300 000
Salary to Daisy	(60 000)
Interest on capital (\$986 200 × 4% + \$675 000 × 4%)	(66 448)
Profit to be shared	<u>173 552</u>

QUESTION 5

Marks

(a) Mr Luk

Income statement for the year ended 31 December 2012

	\$	\$	
Sales ($\$953\,800 \times 140\%$)		1 335 320	½
Less: Cost of goods sold			
Opening inventory	123 000		½
Purchases (W1)	941 700		1½
	1 064 700		
Less: Closing inventory	110 900		½
		953 800	
Gross Profit (40% on cost)		381 520	½
Less: <u>Expenses</u>			
Administrative expenses ($\$226\,000 + \1150)	227 150		1
Selling expenses ($\$64\,300 + \$44\,000 + \$20\,000$)	128 300		1½
Bank charges	20 050		½
Cash loss ($\$99\,220 (W2)/2$)	49 610		3
Depreciation	37 500	462 610	½
Net loss		(81 090)	½

(11)

(b) Mr Luk

Statement of financial position as at 31 December 2012

	\$	\$	
Non-current assets			
Office equipment, at cost		187 500	½
Less: Accumulated depreciation		75 000	½
		112 500	
Current assets			
Inventory	110 900		½
Insurance claim receivable	49 610		½
Cash at bank ($\$392\,100 + \$1\,203\,000 - \$1\,419\,100$)	176 000	336 510	1
		449 010	
Financed by			
<i>Capital</i>			
Balance as at 1 January 2012		547 000	½
Less: Net loss		(81 090)	½
		465 910	
Less: Drawings		120 850	½
		345 060	
Current liabilities			
Trade payables	102 800		½
Accrued administrative expenses	1 150	103 950	½
		449 010	

(6)

Total: 17 marks

QUESTION 5 (Cont'd.)

Workings:

		Trade payables	
		\$	\$
Bank	987 900	Balance b/d	149 000
Balance c/d	102 800	Purchases (balancing figure)	941 700
	<u>1 090 700</u>		<u>1 090 700</u>

		Cash	
		\$	\$
Balance b/d	10 900	Cash deposited	1 203 000
Sales	1 335 320	Selling expenses	44 000
	<u>1 346 220</u>	Cash stolen (balancing figure)	99 220
			<u>1 346 220</u>

QUESTION 6

Marks

- (a) (i) Contribution margin ratio = $\$624\,000 / \$960\,000 \times 100\% = \underline{65\%}$ 2
- (ii) Breakeven sales = $(\$190\,000 + \$57\,000) / 0.65 = \underline{\$380\,000}$ 2
- (iii) Margin of safety = $(\$960\,000 - \$380\,000) / \$960\,000 \times 100\% = \underline{60.42\%}$ 2
- (6)
- (b) (i) Additional variable expense = $\$960\,000 \times 0.05 = \$48\,000$
 New contribution margin = $\$624\,000 - \$48\,000 = \$576\,000$
 New contribution margin ratio = $\$576\,000 / \$960\,000 \times 100\% = \underline{60\%}$ 2
- or $65\% - 5\% = 60\%$
- (ii) New breakeven sales = $\$411\,667$ 2
 The amount of breakeven sales is increased by $\$31\,667$.
- (iii)
- | | | |
|--|----------------|---|
| | \$ | |
| Projected contribution margin $[(\$960\,000 + \$100\,000) \times 0.6]$ | 636 000 | |
| Budgeted contribution margin | <u>624 000</u> | |
| Increase in contribution margin / profit | <u>12 000</u> | 2 |
- Yes, it is because the contribution margin / profit will be increased by $\$12\,000$. 1
- (7)
- (c) Reasons: 2
- sales are moving closer to the breakeven point
 - profit is going down and the possibility of making a loss is greater
- (1 mark for each relevant reason, max.2 marks) (2)

Total: 15 marks

SECTION C

QUESTION 7

Marks

	2011	2012	
(a) (i) Current ratio	$\frac{\$79\,680 + \$37\,500 + \$32\,020 + \$200}{\$43\,300 + \$23\,100}$	$\frac{\$162\,936 + (\$85\,864 + \$14\,000) + \$500}{\$100\,200 + \$60\,000 + \$15\,000}$	2½
	= 2.25 : 1	= 1.50 : 1	
(ii) Liquid ratio	$\frac{\$37\,500 + \$32\,020 + \$200}{\$43\,300 + \$23\,100}$	$\frac{(\$85\,864 + \$14\,000) + \$500}{\$100\,200 + \$60\,000 + \$15\,000}$	2
	= 1.05 : 1	= 0.57 : 1	
(iii) Days' sales in accounts receivables	$\frac{(\$37\,500 + \$37\,260) / 2}{\$454\,790} \times 365 \text{ days}$	$\frac{(\$37\,500 + \$85\,864 + \$14\,000) / 2}{\$625\,942 + \$14\,000} \times 365 \text{ days}$	2½
	= 30.00 days	= 39.17 days	
(iv) Inventory turnover (in times)	$\frac{\$454\,790 - \$96\,110}{(\$79\,680 + \$88\,320) / 2}$	$\frac{(\$625\,942 + \$14\,000) - (\$230\,191 + \$14\,000)}{(\$79\,680 + \$162\,936) / 2}$	2½
	= 4.27 times	= 3.26 times	
(v) Net profit ratio	$\frac{\$115\,000 - \$69\,521}{\$454\,790} \times 100\%$	$\frac{(\$132\,722 + \$14\,000) - \$115\,000}{\$625\,942 + \$14\,000} \times 100\%$	2½
	= 10.00%	= 4.96%	
(vi) Earnings per share	$\frac{\$115\,000 - \$69\,521}{31\,000 \text{ shares}}$	$\frac{(\$132\,722 + \$14\,000) - \$115\,000}{31\,000 \text{ shares}}$	2
	= \$1.47 per share	= \$1.02 per share	(14)
(b) (i) Profitability of 2012 was worse than 2011			1
Other comments:			2
– net profit ratio dropped substantially from 10% to 4.96%			
– this might be the result of poor control over the operating expenses			
– earnings per share, which is a yardstick for the performance of the company, was decreased by \$0.45			
(1 mark for each relevant comment, max. 2 marks)			(3)
(ii) Ways:			
– better control over the level of inventory kept			3
– tighten credit policy so as to shorten its collection period from customers			
– increase cash discounts to attract early settlement from customers			
– issue shares instead of making loans and bank overdraft			
(1 mark for each relevant way, max. 3 marks)			(3)

Total: 20 marks

QUESTION 8

Marks

(a) Helen Ltd – Shop C

Budgeted income statement for the year ended 31 December 2014

	\$	
Sales ($\$6\,000\,000 \times 0.2$)	1 200 000	1
Cost of goods sold	<u>(930 000)</u>	½
Gross profit [$\$1\,200\,000 \times 0.225$ (W1)]	270 000	1
Selling expenses		
- Fixed rental expenses ($\$270\,000/3$)	(90 000)	1
- Sales commission ($\$630\,000 \times 0.2$)	(126 000)	1
Administrative expenses		
- Salaries ($\$560\,000 \times 3/7$)	(240 000)	½
- Office expenses ($\$350\,000 \times 3/7$)	<u>(150 000)</u>	½
Net loss	<u><u>(336 000)</u></u>	½
		(6)

(b) Helen Ltd

Budgeted income statement for the year ended 31 December 2014

	\$	
Sales ($\$6\,000\,000 \times 0.8 \times 1.1$)	5 280 000	1
Cost of goods sold	<u>(2 745 600)</u>	½
Gross profit ($\$5\,280\,000 \times 0.48$)	2 534 400	½
Selling expenses		
- Rental expenses of Shop A and Shop B ($\$270\,000 \times 2/3$)	(180 000)	½
- Rental deposit forfeited	(15 000)	½
- Sales commission ($\$630\,000 \times 0.8 \times 1.1$)	(554 400)	1
Administrative expenses		
- Salaries ($\$560\,000 - \$120\,000$)	(440 000)	1½
- Redundancy compensation	(20 000)	½
- Office expenses ($\$350\,000 \times 4/7 + \$350\,000 \times 3/7 \times 4/5$)	<u>(320 000)</u>	1½
Net profit	<u><u>1 005 000</u></u>	½
		(8)

(c) As net profit will be increased by \$115 000 ($\$1\,005\,000 - \$890\,000$), Helen Ltd should close Shop C. 2
(2)

(d) Non-financial factors: 4

- The need to focus on a longer-term time horizon: A decision based on two years is too short
- The impact on the morale of staff working in other shops: potential threat of redundancies lead to lower morale and productivity
- Negative image of the company as a whole from the closure

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

Total: 20 marks

Workings:

(W1) Gross profit percentage as a whole = $\$2\,700\,000 / \$6\,000\,000 \times 100\% = 45\%$
Gross profit percentage for Shop C = $45\% \times \frac{1}{2} = 22.5\%$

END OF PAPER 2A

PAPER 2B
Business Management Module

General Principles of Marking

1. The answers given in this marking scheme are ‘suggestions’ only. Other relevant answers will also be accepted.
2. 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’.
3. Essay questions require a discussion of the different aspects involved and a maximum mark is set for each point given in the marking scheme.
4. The general guidelines for points which are awarded 0 to 3 marks each are as follows:

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

SECTION A

QUESTION 1

Marks

- Uses:
- placement decision
 - identification of training needs
 - manpower planning
 - compensation adjustment
 - motivation
- (2 marks for each relevant use, max. 6 marks)

6

Total: 6 marks

QUESTION 2

- Factors:
- character: e.g. whether the customer has a sense of responsibility to repay the debt
 - capacity: e.g. whether the customer has sufficient cash flows to meet the obligation
 - capital: e.g. whether the customer has sufficient capital to back up his debt
 - collateral: e.g. whether the customer has sufficient assets to secure the debt
 - conditions: e.g. industry outlook, general economic conditions
- (2 marks for each relevant factor, max. 6 marks)

6

Total: 6 marks

QUESTION 3

Marks

Reasons:

4

- losing existing customers means losing the lifetime value brought by these customers
- attracting a new customer usually costs more than retaining an existing one
- can do cross-selling more easily

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

Total: 4 marks

QUESTION 4

Progressive disciplinary actions:

6

- verbal warning
- written warning
- suspension
- discharge

(2 marks for each relevant action in sequence, max. 6 marks)

Total: 6 marks

QUESTION 5

Advantages:

4

- easier to cater for each region's needs
- quicker to respond to the local market
- more accurate assessment of each region's performance

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

Total: 4 marks

QUESTION 6

Reasons:

4

- spell out rights and responsibilities of buyer and seller: avoid misunderstandings
- legal status: remedies if breach of a contract
- govern actions: avoid disputes

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

Total: 4 marks

SECTION B

QUESTION 7

Marks

- (a) Risk management strategies: 4
- risk avoidance: e.g. avoid using easily infected food ingredients
 - risk reduction: e.g. source raw materials from reliable suppliers
 - risk transfer: e.g. take insurance to cover the losses resulting from food poisoning
 - risk assumption: e.g. assume the losses resulting from food poisoning
- (2 marks for each relevant strategy, max. 4 marks)
- (b) Methods: 6
- survey research, e.g. questionnaire
 - qualitative research, e.g. interview
 - observational research, e.g. on-site observation
 - experiments, e.g. taste tests
- (2 marks for each relevant method with correct example, max. 6 marks)
- (c) Criteria: 6
- purchasing power: e.g. middle-class customers have higher income
 - growth of the segment: e.g. middle-class customers become more health conscious
 - competition: e.g. no dominant competitor in the field serving the middle-class customers
 - distinctiveness: e.g. the market segment of middle-class is differentiable from other segments
- (2 marks for each relevant criterion, max. 6 marks)
- (d) Sources of capital: 3
- issue shares
 - issue long-term bond
 - borrow long-term loan
 - set up joint venture
- (1 mark for each relevant source, max. 3 marks)
- (e) Ways of promotion: 6
- advertising: e.g. advertising on TV, food magazine or websites
 - sales promotion: e.g. discounts, free gifts, lucky draw
 - public relations: e.g. grand opening, press conference, press release
 - personal selling: e.g. waiters recommend dishes to customers
- (2 marks for each relevant way, max. 6 marks)

Total: 25 marks

QUESTION 8**Marks**

- (a) Theory X assumptions: 6
- people inherently dislike work, e.g. employees of Wing Hung lack initiative
 - people have little ambition and try to avoid responsibility, e.g. employees of Wing Hung follow instructions
 - people prefer to be led, e.g. close supervision by Richard
 - people prefer monetary rewards, e.g. above market level salary at Wing Hung
 - people want stability and resist to change, e.g. follow rigid rules
- (2 marks for each relevant assumption, max. 6 marks)
- (b) Other types of monetary compensation methods: 6
- commission
 - bonus
 - merit pay
 - profit-sharing
 - stock option
- (2 marks for each relevant type, max. 6 marks)
- (c) Reasons: 4
- intangibility: training helps to provide tangible signals of good service
 - heterogeneity: training helps to reduce variability of service
 - inseparability: training helps to equip employees with good interpersonal skills
 - perishability: training helps to enhance employees' adaptability in dealing with fluctuating demand
- (2 marks for each relevant reason, max. 4 marks)
- (d) (i) Payback period = \$12m/ \$4m = 3 years 1
- (ii) Reasons: 4
- ignore time value of money
 - fail to indicate the absolute worth of project
 - ignore the cash flows after the payback period
- (2 marks for each relevant reason, max. 4 marks)
- (e) (i) $NPV = \left(\frac{4m}{1.08} + \frac{4m}{1.08^2} + \frac{4m}{1.08^3} + \frac{4m}{1.08^4} \right) - 12m$ 1
- NPV = \$1 248 507 1
- (ii) Since the NPV is positive, the project should be adopted. 2

Total: 25 marks

SECTION C

QUESTION 9

Marks

- (a) – liquidity ratios: measures the chain's ability to repay short-term debts, e.g. current ratio, quick ratio 12
– debt management ratios/ solvency ratios: measures the chain's use of financial leverage, e.g. debt ratio, debt to equity ratio
– activity ratios/ management efficiency ratios: measure how efficiently the chain utilises its assets, e.g. inventory turnover, average collection period
– profitability ratios: measure the earning power of the chain, e.g. gross profit ratio, net profit margin
(3 marks for each relevant point, max. 12 marks)
- (b) Possible causes: 8
– sales: e.g. keen competition, inappropriate merchandising
– inventories: e.g. wastage, change in prices, change in foreign exchange rates
– labour: e.g. change in wage rate and labour efficiency
– rental: e.g. change in rent level
(3 marks for each relevant cause, max. 8 marks)

Total: 20 marks

QUESTION 10

- (a) Characteristics: 12
– high growth in sales
– begin to earn substantial profit
– drop in average cost
– competition becomes keener
– customers are early adopters
(3 marks for each relevant characteristic, max. 12 marks)
- (b) Advantages: 8
– promotion-from-within policy is well-accepted by employees
– the company and the employees are familiar with each other
– lower recruitment cost and orientation cost
– higher motivation to existing employees
(3 marks for each relevant advantage, max. 8 marks)

Total: 20 marks

END OF PAPER 2B