

# BAFS 2013

## 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*

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

### 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) 3
- 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)
- (b) 3
- 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)

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**

- |  | <b>Marks</b> |
|--|--------------|
| (a) Accounting principle/concept violated:   |              |
| – money measurement concept  | 1            |
| Explanations:  |              |
| – only transactions capable of being expressed in monetary terms are included in the accounting records of an entity | 2            |
| – 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		
Goodwill		300 000	½
			½
			(4)

	Cash at bank		
2013 March	\$	2013 March	
½ Balance b/d (i)	62 300	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 ½
			(6)

Total: 10 marks

**QUESTION 2**

**Marks**

(a)

		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
		<u>967 500</u>		<u>967 500</u>	

(3)

(b)

		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
		<u>258 300</u>	[(675 000 – 270 000) + 292 500 – 81 000] × 20%	<u>258 300</u>	

(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	
	<u>\$13</u>	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)

(c)

		Job cost card		
		\$	\$	
	Direct materials (\$250 × 100)		25 000	
	Direct labour			
	Electricians (\$60 × 200)	12 000		
	Apprentices (\$35 × 300)	10 500	22 500	
	<b>Prime cost</b>		<u>47 500</u>	
	Production overheads (\$13 × 500)		6 500	2
	<b>Production cost</b>		<u>54 000</u>	
	Administrative overheads (\$54 000 × 0.25)		13 500	1
	<b>Total cost</b>		<u>67 500</u>	
	Profit		67 500	1½
	Selling price		<u>135 000</u>	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	Bank	230 000			Gain on revaluation (W1)	556 800	371 200	
½	Loan from Carrie	1 164 800			Goodwill	210 000	140 000	
	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

		\$	\$	
<b>Non-current assets</b>				
Property			2 320 000	½
Equipment			480 000	½
			<u>2 800 000</u>	
<b>Current assets</b>				
Trade receivables		550 000		½
Less: Allowance for doubtful debts		<u>22 000</u>		½
		528 000		
Cash at bank (\$100 000 + \$850 000 – \$230 000)		<u>720 000</u>	1 248 000	1
			<u>4 048 000</u>	
<b>Financed by:</b>				
Capital accounts - Daisy		986 200		} ½
- Ellen		<u>675 000</u>		
			1 661 200	
Current account - Daisy			<u>247 000</u>	½
			1 908 200	
<b>Long-term liabilities</b>				
Loan from Carrie		1 164 800		½
Bank loan		<u>700 000</u>	1 864 800	½
<b>Current liabilities</b>				
Trade payables			<u>275 000</u>	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)
	928 000

(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	173 552

**QUESTION 5**

**Marks**

(a) Mr Luk

Income statement for the year ended 31 December 2012

	\$	\$	
Sales (\$953 800 × 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: Expenses			
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		½
	462 610		
Net loss		(81 090)	½

(11)

(b) Mr Luk

Statement of financial position as at 31 December 2012

	\$	\$	
<b>Non-current assets</b>			
Office equipment, at cost		187 500	½
Less: Accumulated depreciation		75 000	½
		112 500	
<b>Current assets</b>			
Inventory	110 900		½
Insurance claim receivable	49 610		½
Cash at bank (\$392 100 + \$1 203 000 - \$1 419 100)	176 000		1
		336 510	
		449 010	
<b>Financed by</b>			
<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	
<b>Current liabilities</b>			
Trade payables	102 800		½
Accrued administrative expenses	1 150		½
	103 950		
		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
		Cash stolen (balancing figure)	99 220
	<u>1 346 220</u>		<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 =  $\$960\,000 \times 0.05 = \$48\,000$  2  
 New contribution margin =  $\$624\,000 - \$48\,000 = \$576\,000$   
 New contribution margin ratio =  $\$576\,000 / \$960\,000 \times 100\% = \underline{60\%}$   
 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>  |
- 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

(a)	2011	2012	
(i)	Current ratio $\frac{\$79\,680 + \$37\,500 + \$32\,020 + \$200}{\$43\,300 + \$23\,100}$ = 2.25 : 1	$\frac{\$162\,936 + (\$85\,864 + \$14\,000) + \$500}{\$100\,200 + \$60\,000 + \$15\,000}$ = 1.50 : 1	2½
(ii)	Liquid ratio $\frac{\$37\,500 + \$32\,020 + \$200}{\$43\,300 + \$23\,100}$ = 1.05 : 1	$\frac{(\$85\,864 + \$14\,000) + \$500}{\$100\,200 + \$60\,000 + \$15\,000}$ = 0.57 : 1	2
(iii)	Days' sales in accounts receivables $\frac{(\$37\,500 + \$37\,260) / 2}{\$454\,790} \times 365 \text{ days}$ = 30.00 days	$\frac{(\$37\,500 + \$85\,864 + \$14\,000) / 2}{\$625\,942 + \$14\,000} \times 365 \text{ days}$ = 39.17 days	2½
(iv)	Inventory turnover (in times) $\frac{\$454\,790 - \$96\,110}{(\$79\,680 + \$88\,320) / 2}$ = 4.27 times	$\frac{(\$625\,942 + \$14\,000) - (\$230\,191 + \$14\,000)}{(\$79\,680 + \$162\,936) / 2}$ = 3.26 times	2½
(v)	Net profit ratio $\frac{\$115\,000 - \$69\,521}{\$454\,790} \times 100\%$ = 10.00%	$\frac{(\$132\,722 + \$14\,000) - \$115\,000}{\$625\,942 + \$14\,000} \times 100\%$ = 4.96%	2½
(vi)	Earnings per share $\frac{\$115\,000 - \$69\,521}{31\,000 \text{ shares}}$ = \$1.47 per share	$\frac{(\$132\,722 + \$14\,000) - \$115\,000}{31\,000 \text{ shares}}$ = \$1.02 per share	2
			(14)
(b)	(i) Profitability of 2012 was worse than 2011 Other comments: – 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)		1 2    (3)
	(ii) Ways: – better control over the level of inventory kept – 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    (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 ( $\$630\,000 \times 0.8 \times 1.1$ )	<u>(554 400)</u>	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:
- The need to focus on a longer-term time horizon: A decision based on two years is too short 4
  - 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**

Uses:

- placement decision
- identification of training needs
- manpower planning
- compensation adjustment
- motivation

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

**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 =  $\$12\text{m} / \$4\text{m} = 3$  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) 
$$\text{NPV} = \left( \frac{4\text{m}}{1.08} + \frac{4\text{m}}{1.08^2} + \frac{4\text{m}}{1.08^3} + \frac{4\text{m}}{1.08^4} \right) - 12 \text{ m}$$
  
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  
– 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

12

(3 marks for each relevant point, max. 12 marks)

- (b) Possible causes:

- 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

8

(3 marks for each relevant cause, max. 8 marks)

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Total: 20 marks

### QUESTION 10

- (a) Characteristics:

- high growth in sales  
– begin to earn substantial profit  
– drop in average cost  
– competition becomes keener  
– customers are early adopters

12

(3 marks for each relevant characteristic, max. 12 marks)

- (b) Advantages:

- 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

8

(3 marks for each relevant advantage, max. 8 marks)

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Total: 20 marks

END OF PAPER 2B