

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2B**  
**Business Management Module**

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**.

Not to be taken away before the  
end of the examination session

SECTION A (24 marks)

Answer ALL questions in this section.

1. A bus company has started manpower planning and forecasted that its demand for bus drivers will increase. Describe the remaining three steps of this manpower planning process. (6 marks)
2. A restaurant is going to conduct marketing research on customers' opinions about its food quality. In addition to collecting secondary data for the research, it plans to collect primary data by random sampling.
- (a) Differentiate between primary and secondary data. (2 marks)
- (b) Apart from the sampling technique mentioned above, give two other sampling techniques and explain how the restaurant could use each of them to collect primary data. (4 marks)
3. In view of keen competition, a food delivery company wants to insure against the risk of operating losses. However, an insurance agent advises that this risk is non-insurable.
- (a) Give two reasons why the above risk is non-insurable. (4 marks)
- (b) Explain one type of insurance that the company should take out to cover the risks faced by its employees. (2 marks)

4. A firm calculated its cost of goods sold for 2018 as follows:

	\$
Opening inventory	25 000
Add: Purchases	<u>360 000</u>
	385 000
Less: Closing inventory	<u>50 000</u>
Cost of goods sold	<u><u>335 000</u></u>

- (a) (i) Calculate the inventory turnover (in times, to two decimal places) of the firm for 2018. (2 marks)
- (ii) Explain the main objective of inventory management. (2 marks)
- (b) To increase the inventory turnover, the firm decided to pay salary according to performance. Suggest one form of performance-based pay that the firm could introduce. (2 marks)



SECTION B (36 marks)

Answer ALL questions in this section.

5. Fortune Cinema is a private limited company which operates five cinemas in Hong Kong. To take advantage of the market opportunity brought about by the rapid development of technology, the cinemas will be renovated. Four-dimensional (4D) and virtual reality (VR) effects will also be introduced.

In a meeting, Robert, the Managing Director of the company, said, 'I am pleased to announce that our cinemas will enter a new era by introducing 4D and VR effects. Francis, have you done the analysis for the project? Could we finance the renovation project using a bank loan, as in the past?'

Francis, the Finance Manager, replied, 'The renovation project will cost \$10 million and its internal rate of return is 8%. Currently, we rely on the company's reserves and borrowing from banks to support our operations. As our gearing ratio is much higher than the industry average, we should not borrow further from banks. We should find funding from the existing and new shareholders instead.'

Mary, the Marketing Manager, added, 'The introduction of the latest technology will definitely enhance our competitiveness. We may also consider implementing an electronic marketing system to sell movie tickets and maintain a customer database. This could help increase our sales. We may also set a high price for the tickets at the beginning in order to recover the renovation cost as soon as possible.'

- (a) Assuming the company's cost of capital is 6%, explain whether Fortune Cinema should adopt the renovation project, based on the internal rate of return method. (2 marks)
- (b) (i) Give two reasons why Fortune Cinema should not borrow further from banks. (4 marks)
- (ii) If Fortune Cinema finds funding from the existing and new shareholders, which source of long-term financing is this? Explain two disadvantages of using this source of financing. (5 marks)
- (c) Give two reasons why the electronic marketing system could increase sales in the cinemas. (4 marks)
- (d) (i) State the type of pricing strategy suggested by Mary for the movie tickets. (1 mark)
- (ii) Give one reason, other than the one given by Mary, to support the use of this pricing strategy. (2 marks)

(Total: 18 marks)

6. Speedy Company is a fast-growing company which sells sports equipment and accessories in Hong Kong. Currently, the company has six retail stores and 40 staff. After reviewing the mid-year report of the company, Jeff, the General Manager, was disappointed with the performance of the company. He called an urgent meeting.

In the meeting, Jeff asked, 'Our actual sales revenues for the last six months are far below the budgeted figures. Can anyone tell me the reasons? Are there any remedial actions we can take?'

Patrick, the Marketing Manager, replied, 'We have already launched several advertising campaigns to enhance the image of our brand. To further boost our sales, we need to formulate other promotional strategies.'

Lucy, the Finance Manager, said, 'I guess we may have an unfavourable sales-volume variance because our main competitor opened several retail stores nearby in the past few months. I will conduct a detailed analysis and report to you next week.'

Annie, the Human Resources Manager, said, 'Our sales performance may be affected by the staff turnover. The staff turnover rate is at a record high this year. Recently, I talked to the staff who left the company. They appreciated the fact that we provided them with attractive remuneration and comfortable working environment. However, they complained that they had stayed in the same position for a long time and done the same job following rigid instructions. They felt bored.'

Jeff said, 'We should look for ways to motivate the existing staff and fill the vacancies as soon as possible.'

Annie replied, 'You are right. To fill the vacancies, we have recruited ten fresh graduates as sales trainees. We will provide training to them soon.'

Jeff asked, 'Shall we provide on-the-job or off-the-job training to them?'

- (a) Apart from the element of the promotion mix mentioned in the case, give two other elements of the mix and explain how Speedy Company could use each of the elements to boost its sales. (4 marks)
- (b) (i) What is an 'unfavourable sales-volume variance'? (1 mark)
- (ii) With reference to any two elements of the marketing mix other than promotion, suggest one remedial action for each to cope with the competition mentioned by Lucy. (4 marks)
- (c) In view of the complaints made by the staff who left the company, and with reference to Herzberg's Dual-factor Theory,
- (i) explain why the staff of Speedy Company are not motivated by the attractive remuneration and comfortable working environment. (2 marks)
- (ii) suggest two ways to motivate the staff of Speedy Company. (4 marks)
- (d) (i) Suggest one on-the-job training method for the newly-recruited sales trainees. (1 mark)
- (ii) Explain one advantage, from the perspective of the sales trainees, of receiving on-the-job training instead of off-the-job training. (2 marks)

(Total: 18 marks)



**SECTION C (20 marks)**

Answer ONE question in this section.

7. A company selling computer hardware and software to the business market is going to expand to the consumer market and is externally recruiting a large number of salespersons through different channels.

(a) Illustrate the differences between the business market and the consumer market for this company. (10 marks)

(b) Explain the advantages of different external recruitment channels. (10 marks)

(Total: 20 marks)

8. A newly-established company manufacturing and selling furniture is considering which market segment should be targeted. It is also evaluating several investment projects using different capital investment appraisal methods.

(a) Explain the factors to be considered by this company when determining which market segment should be targeted. (10 marks)

(b) Analyse the limitations of different capital investment appraisal methods. (10 marks)

(Total: 20 marks)

**END OF PAPER**

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

**SECTION A**

**QUESTION 1**

Marks

Steps:

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

6

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6 marks

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**QUESTION 2**

Marks

- (a) Primary data are data collected for a specific research purpose, while secondary data are data readily available/collected for some other purposes.
- (b) Other sampling techniques:
- convenience sampling: e.g. leave a questionnaire on the table for customers to fill in
  - stratified random sampling: e.g. customers are divided into three groups, i.e. breakfast, lunch and dinner, and random samples are drawn from each group
- (1 mark for the name, 1 mark for the application, max. 4 marks)

2

2

2

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6 marks

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**QUESTION 3**

Marks

- (a) Reasons:
- the risk is speculative: there are possibilities of both loss and gain from operations
  - the loss is not accidental: operating loss is controllable
  - difficult to measure the probability of operating loss: difficult for the insurance company to calculate the premium
- (2 marks for each relevant reason, max. 4 marks)
- (b) Types of insurance:
- employees' compensation insurance: e.g. to cover medical expenses and compensation claims if employees are injured at work
  - motor insurance: e.g. to cover losses due to traffic accidents
- (2 marks for each relevant type of insurance, max. 2 marks)

4

2

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6 marks

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**QUESTION 4**

Marks

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

2

(ii) Main objective:

- To maintain an adequate level of inventory at minimum inventory costs

2

(b) Forms:

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

2

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6 marks

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## SECTION B

### QUESTION 5

Marks

- (a) the internal rate of return of the project (8%) is higher than the required rate of return (i.e. cost of capital 6%), the renovation project should be adopted 2
- (b)(i) Reasons: 4
- higher financial burden and risk: e.g. fixed obligation to repay principal and interest
  - lower flexibility and control: e.g. banks may impose restraints on fund usage
  - difficult to solicit further borrowing/higher interest rate as the current gearing ratio is high
- (2 marks for each relevant reason, max. 4 marks)
- (ii) equity financing 1
- Disadvantages: 4
- dilution of control
  - profit sharing with new investors
  - dividend is not tax-deductible
- (2 marks for each relevant disadvantage, max. 4 marks)
- (c) Reasons: 4
- convenience to customers: e.g. issuing e-tickets and showing schedules on website
  - closer customer relationship: e.g. can reply to customers' enquiries online, recommend movies to customers based on their purchase record
  - enhanced promotion: e.g. can show advertisements or trailers on website to stimulate customers' interest
- (2 marks for each relevant reason, max. 4 marks)
- (d)(i) skimming pricing strategy 1
- (ii) Reasons: 2
- the new technology could attract customers of low price sensitivity
  - short-term profits would increase as the margin is higher
- (2 marks for each relevant reason, max. 2 marks)

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18 marks

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**QUESTION 6****Marks**

- (a) Elements of promotion mix: 4
- sales promotion: e.g. offering discounts, gifts, lucky draws
  - public relations: e.g. sponsorship of sports events, use of celebrities to promote the products
  - personal selling: e.g. introducing product features to customers
- (2 marks for each relevant element, max. 4 marks)
- (b) (i) actual sales volume is lower than budgeted sales volume 1
- (ii) Remedial actions: 4
- price: e.g. set a competitive price to attract customers
  - product: e.g. explore new product features to distinguish from the competitor, provide better after-sales services
  - place: e.g. adopt different distribution channels such as setting up an online store
- (2 marks for each remedial action, max. 4 marks)
- (c) (i) Because they are hygiene factors, which could only prevent employees from feeling dissatisfaction, but could not lead to job satisfaction and motivation. 2
- (ii) Ways: 4
- offer promotion opportunities
  - adjust job content to make it more interesting and challenging
  - empowerment and job autonomy
- (2 marks for each relevant way, max. 4 marks)
- (d) (i) On-the-job training methods: 1
- Example: coaching, job rotation
- (1 mark for each relevant method, max. 1 mark)
- (ii) Advantages: 2
- trainees can receive immediate feedback for prompt improvement
  - more relevant to the job and more practical: e.g. trainees can apply the knowledge and skills learnt from the training to their work
- (2 marks for each relevant advantage, max. 2 marks)

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**18 marks**



SECTION C

QUESTION 7

Marks

(a) Differences:

10

	Business market	Consumer market
Complexity of buying decisions	<ul style="list-style-type: none"> <li>- formalised procedure</li> <li>- more participants (multiple decision participants)</li> </ul>	<ul style="list-style-type: none"> <li>- simpler personal decisions</li> </ul>
Nature of demand/ Purposes of purchases	<ul style="list-style-type: none"> <li>- derived demand, e.g. for production and operation</li> <li>- relatively more frequent purchases and in larger amounts</li> <li>- fewer buyers</li> </ul>	<ul style="list-style-type: none"> <li>- direct consumption, e.g. home use computers</li> <li>- relatively less frequent purchase and in smaller amounts</li> <li>- more buyers</li> </ul>
Relationship between buyer and seller	<ul style="list-style-type: none"> <li>- usual to maintain a long-term and close relationship with the computer company</li> </ul>	<ul style="list-style-type: none"> <li>- less likely to maintain a long-term and close relationship with the computer company</li> </ul>
Price sensitivity of buyers	<ul style="list-style-type: none"> <li>- relatively less sensitive</li> </ul>	<ul style="list-style-type: none"> <li>- relatively more sensitive</li> </ul>

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

(b)

Recruitment channel	Advantage
Job advertisement	<ul style="list-style-type: none"> <li>- wide coverage</li> <li>- cost-effective</li> </ul>
Employee referral	<ul style="list-style-type: none"> <li>- less screening is required</li> <li>- new employees adapt to the environment more easily</li> </ul>
Employment agencies	<ul style="list-style-type: none"> <li>- possess expertise to find suitable candidates, could provide professional recruitment advice</li> <li>- more recruitment networks to seek suitable applicants</li> </ul>
Job fairs	<ul style="list-style-type: none"> <li>- more efficient</li> <li>- cost-effective and time-saving</li> </ul>

10

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

20 marks

**QUESTION 8**

**Marks**

- (a) Factors: 10
- segment size and affordability: e.g. whether the segment is substantial enough for the company to enter; purchasing power of the customers in the segment
  - segment growth rate: e.g. whether the segment has high growth rate for the company's development
  - segment structural attractiveness: e.g. whether the segment has intense competition or customers have high bargaining power; availability of substitutes
  - company objectives: e.g. whether the entry to a segment matches company's long-term objectives
  - company capability: e.g. whether the company possesses relevant skills and resources to provide satisfactory products to the segment
- (3 marks for each relevant factor, max. 10 marks)

(b) 10

Capital investment appraisal method	Limitation
Payback period	<ul style="list-style-type: none"> <li>- ignoring time value of money</li> <li>- ignoring cash flows after the payback period</li> <li>- failing to indicate the absolute worth of the project</li> </ul>
Net present value	<ul style="list-style-type: none"> <li>- difficulty in ascertaining an appropriate discount rate</li> <li>- difficulty in comparing projects of different lives/risks/initial outlays</li> <li>- ignoring the size of different projects</li> </ul>
Accounting rate of return	<ul style="list-style-type: none"> <li>- ignoring time value of money</li> <li>- ignoring the cash flows generated from the projects</li> <li>- profits could be manipulated</li> </ul>
Internal rate of return	<ul style="list-style-type: none"> <li>- failing to reflect the increase in the company's value</li> <li>- may give conflicting results when compared to the net present value method for mutually-exclusive projects</li> <li>- multiple internal rate of return when there are negative cash flows</li> </ul>

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

20 marks

**END OF PAPER 2B**