

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. Explain three types of risk management strategy that a shipping company may use to deal with the risk of pirate attacks and kidnapping. (6 marks)

2. Suggest three product strategies that a travel agency could adopt to attract customers. (6 marks)

3. Suggest three internal communication programmes that could enhance the employee relations of a large enterprise. (6 marks)

4. A firm's credit sales and cash sales for the year 2017 amounted to \$350 000 and \$250 000 respectively. Its average trade receivables for the year 2017 were \$123 500. The trade receivables turnover of other firms in the same industry is around 5 times a year.
 - (a) Calculate the trade receivables turnover (to 2 decimal places) of the firm for the year 2017. (2 marks)

 - (b) With reference to your answer to (a) above, comment on any two elements of the credit policy of the firm. (4 marks)



SECTION B (36 marks)

Answer **ALL** questions in this section.

5. The Food Truck Pilot Scheme was initiated by the Hong Kong Government in 2016. It aims to enhance the appeal of tourist attractions and provide diverse, creative and high quality food to tourists and the public. Robin, an experienced chef in a hotel, is planning to join the scheme to sell desserts. The food truck will be operated by him and his family members. Recently, he discussed his plan with his friend, Martin, who is running a chain of restaurants.

Martin said, 'You may need to look for financing through a bank to fund the startup and operations of the business.'

Robin responded, 'With hard work over the past years, I have saved around \$1 000 000 which can be used as the initial capital for the business. My brother is a professional accountant. He pointed out that as the operating cycle and the cash conversion cycle of a food truck are relatively short, there would be sufficient cash flows to operate the business.'

Martin said, 'That's good! In the meantime, you should draft a business plan for the food truck business to get a complete picture of what is involved in setting up the business. In your plan, you should include various budgets for your business. Though it may be costly and time-consuming to compile a budget, and there are some limitations of using budgetary control, it helps with many managerial functions.'

Robin responded, 'I heard that the marketing concept is also important for the success of a business, so I would like to segment the market. However, as the operational locations of the food truck rotate and are assigned by the government, I am afraid that the market is difficult to be segmented based on geographical location.'

Martin suggested, 'Except geographical location, you can also segment the market on other bases.'

- (a) (i) Describe the operating cycle of the food truck business. (2 marks)
- (ii) Give one reason why the cash conversion cycle of the food truck business is relatively short. (2 marks)
- (b) Describe two limitations of using budgetary control for the food truck business. (4 marks)
- (c) (i) Explain what 'marketing concept' means. (2 marks)
- (ii) Explain with an example how the marketing concept could be applied to the food truck business. (2 marks)
- (d) As suggested by Martin, explain three other bases of market segmentation that Robin could use. (6 marks)

(Total: 18 marks)

6. Sun Fung Company is a fast-growing logistics firm which delivers packages of various sizes from the Mainland to Hong Kong. Patrick, the Managing Director, called a meeting to discuss changing the remuneration system and improving the operational efficiency of the company.

Johnny, the Finance Manager, suggested, 'I think that our staff belong to the Theory Y type. To motivate them, we should change the remuneration system by freezing their basic salary and introducing a bonus based on the company's annual accounting profit and the staff's performance appraisal results. Then, they will face more challenges and their income will be linked to the company's performance. They will earn more by performing better, which will lead to a win-win situation!'

Patrick wondered, 'Are there any disadvantages of such a new system? Will our staff support this change?'

Rose, the Human Resources Manager, responded, 'Don't worry! Our staff are positive, energetic and willing to take up responsibility. They will support the proposed change in the remuneration system. I am actually more concerned with another issue: the working environment is too harsh for some front line workers. Some of them even quit their job because of back injuries and muscle pain. We should find ways to deal with this problem.'

Patrick responded, 'I was inspired by a technology exhibition in Germany and I am planning to install robotic arms in the workplace which can help lift bulky packages and enhance worker efficiency. Johnny, have you conducted the appraisal of this project?'

Johnny reported, 'The accounting rate of return of the project is estimated at 12%, which is higher than the company's required rate of return, and its net present value is -\$100 000.'

Patrick asked, 'The accounting rate of return is higher than the company's required rate of return, but the net present value is negative. Should we accept the project then? Any other non-financial factors that we should consider?'

- (a) Explain three disadvantages of Johnny's proposal to change the remuneration system. (6 marks)
- (b) With reference to the assumptions of McGregor's Theory X and Theory Y,
- (i) give one piece of information from the case to support Johnny's view that the staff of Sun Fung Company belong to the Theory Y type. (1 mark)
- (ii) suggest two other ways in which Sun Fung Company could motivate its staff. (4 marks)
- (c) Based on the accounting rate of return and the net present value of the robotic arms project, should Sun Fung Company accept the project? Justify your answer with one reason. (3 marks)
- (d) Explain two non-financial factors that would support the installation of the robotic arms. (4 marks)

(Total: 18 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

7. A newly-established company selling bicycles is considering using the Economic Order Quantity model to find the optimal order quantity of bicycles in order to minimise the total inventory cost. It also plans to distribute the bicycles to its customers through middlemen.
- (a) Describe the cost components for determining the Economic Order Quantity of bicycles and explain how the total inventory cost can arrive at its minimum under this model. (8 marks)
- (b) Explain the factors that the company should consider when deciding whether to distribute the bicycles to customers through middlemen. (12 marks)
- (Total: 20 marks)

8. A language learning centre is planning to conduct a marketing research in order to gather information on the preferences and needs of its potential customers. A performance appraisal system on the course instructors will also be set up in order to ensure the quality of teaching.
- (a) Describe the data collection methods which can be used by the language learning centre to gather information on the preferences and needs of its potential customers. (8 marks)
- (b) Illustrate the steps in conducting a performance appraisal for the course instructors. (12 marks)
- (Total: 20 marks)

END OF PAPER