# Paper 2B
## Business Management Module

**SECTION A**

### QUESTION 1

Risk management strategies:

    Marks: 6

- risk reduction: e.g. installation of defence devices, recruitment of armed security forces
- risk transfer: e.g. taking out of marine insurance which covers the risk of piracy and kidnapping
- risk assumption: e.g. paying the ransom out of company's reserve in case of kidnapping

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

    6 marks

### QUESTION 2

Product strategies:

    Marks: 6

- variety of tours: e.g. offering different kinds of theme tours and personalised trips
- quality of services: e.g. assigning reliable and professional tour guides
- add-on services: e.g. providing travel packages including airline service, hotel service, car rental service, etc.
- branding: e.g. establishing the brand name of the agency

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

    6 marks

### QUESTION 3

Internal communication programmes:

    Marks: 6

- mentorship programmes
- induction programmes
- regular staff meetings
- social gatherings

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

    6 marks

### QUESTION 4

(a)    Trade receivables turnover:
       $350 000/$123 500 = 2.83 times

    Marks: 2

(b)    Comments:

    Marks: 4

- credit terms: e.g. more lenient, longer discount period, lower discount rate, longer credit period
- credit standard: e.g. being lower than that of the other firms in the same industry, granting credit to customers with lower credibility
- collection policy: e.g. being more lenient in debt collection procedure

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

    6 marks

**QUESTION 5**                                                                                                 Marks

(a)(i)  Operating cycle:
- the food truck buys materials, converts the materials into desserts and collects cash from    2
  selling the desserts

(ii)  Reason:
- the average time required to collect money from customers is shorter, as sales are mainly    2
  made on a cash basis

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

(b)  Limitations:                                                                                                 4
- the budget plan is based on estimates and hence the effectiveness of budgetary control
  depends on the accuracy of the estimates made
- the business environment changes rapidly, the budgets are rigid if they are not revised to
  meet the changing environment
- qualitative information is not shown in the budgets

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

(c)(i)  Marketing concept:                                                                                       2
- analysis of customers' needs and taking of appropriate measures to satisfy those needs
  in order to make profit
- delivering of the desired satisfaction more effectively and efficiently than its
  competitors

(2 marks for each relevant point, max. 2 marks)

(ii)  Example:                                                                                                   2
- designing a dessert menu which meets the tastes and preference of its customers
- provision of user-friendly cutlery and packages which enable the customers to taste the
  dessert more easily

(2 marks for each relevant example, max. 2 marks)

(d)  Other bases for market segmentation:                                                                        6
- demographic: e.g. age, gender, income, occupation, family life cycle
- psychographic: e.g. social class, lifestyle (health consciousness), personality
- behavioral: e.g. benefits sought (convenience), occasions (sightseeing), frequency of
  visit

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

_____

18 marks
=============

(a)   Disadvantages:                                                                                          6
   -   limitations in performance appraisal: e.g. bias and errors will lead to unfair bonus
   -   low motivational effect: e.g. staff may think that their performance contributes little to the company's accounting profit/the accounting profit can be manipulated by financial tactics
   -   implementation costs: e.g. conducting of seminars to explain the new system to the staff
   -   staff may feel insecure as their annual income/bonus is uncertain
   (2 marks for each disadvantage, max. 6 marks)

(b)(i)   The 4th paragraph:                                                                                   1
   Rose, the Human Resources Manager, responded, '...Our staff are positive, energetic and willing to take up responsibility.'

   (ii)   Ways:                                                                                                4
   -   more recognition: e.g. award, verbal praise
   -   more autonomy: e.g. more opportunity to make decisions
   -   more challenging tasks: e.g. designing the route and schedule of delivery
   -   provision of training for employees' personal development: e.g. enhancing communication skills with customers
   (2 marks for each relevant way, max. 4 marks)

(c)   -   the project should not be accepted                                                                  1

   Reasons:
   -   as the net present value is negative, the acceptance of the project will decrease the net         2
       worth of the company
   -   the accounting rate of return ignores the time value of money/cash flows
   (2 marks for each relevant reason, max. 2 marks)

(d)   Non-financial factors:                                                                                 4
   -   reducing injuries to staff
   -   enhancing staff morale
   -   enhancing company's reputation/fulfilling corporate social responsibility
   (2 marks for each relevant non-financial factor, max. 4 marks)

                                                                                        _____
                                                                                        18 marks
                                                                                        _____

**SECTION C**

**QUESTION 7**

Marks

(a)   Cost components:
- carrying cost: cost incurred on holding inventory in hand, e.g. opportunity cost of money tied up in inventories, obsolescence, etc.
- ordering cost: cost incurred on placing and receiving an order, e.g. costs of communicating with supplier, transportation cost, etc.

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Minimising total inventory cost:
- as the order size increases, fewer orders are required, which leads to a decrease in the total ordering cost, whereas the average amount of inventory in hand will increase, resulting in an increase in total carrying cost
- the optimal order quantity represents a compromise between these two costs, i.e. when total ordering cost equals total carrying cost, the total inventory cost is minimised

(2 marks for each relevant description, max. 8 marks)

(b)   Factors:
- costs: e.g. commissions and other fees paid to middlemen
- control of the sales of bicycles: e.g. whether the company wishes to have more control over the sales and promotion of their bicycles
- relationship with customers: e.g. whether the company wishes to maintain a direct and close relationship with its customers to collect feedback on the products/to provide professional advice to customers
- expertise of the company, e.g. whether the company possesses an experienced sales team
- customer base: e.g. whether the company has connection with its potential customers

12

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

20 marks

**QUESTION 8**

Marks

(a)   Data collection methods:
- qualitative research: e.g. conducting in-depth personal interviews or focus group interviews with customers to find out their reasons for learning a particular foreign language and the suitable learning mode
- survey research: e.g. using questionnaires to collect information on the preferences and needs of potential customers
- experimental research: e.g. using control groups to find out whether the mode of teaching would have an impact on the learning motivation of potential customers
- observational research: e.g. conducting trial lessons to observe the behavior of potential customers in the classroom/observe the market situation by recording the number of the foreign language classes offered by competitors

8

(2 marks for each method, max. 8 marks)

(b)   Steps of performance appraisal:
1. set the aim of appraisal and performance standards and communicate with the appraiser and the appraisee
2. measure and record staff performance, make comparisons between expected and actual performance
3. provide feedback and listen to staff responses
4. make human resources decisions: e.g. training and development, promotion, termination, etc.

12

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

20 marks

**END OF PAPER 2B**

# Candidates' Performance

11 340 candidates sat the Business, Accounting and Financial Studies examination this year: 8 305 candidates chose the Accounting Module and 3 035 chose the Business Management Module. Approximately 54% of candidates sat the English papers.

## Paper 1

### Section A

There were 30 multiple-choice questions in this section. The mean score was 38 out of 60 marks.

The percentage correct was lowest in the following questions:

8.      Which of the following should be credited to the purchases account of a firm?

   (1)  goods withdrawn by owners for personal use
   (2)  goods returned to a supplier
   (3)  goods donated to a non-profit making organisation

   A.  (1) only           (12%)
   B.  (1) and (3) only*     (33%)
   C.  (2) and (3) only     (20%)
   D.  (1), (2) and (3)     (35%)

**Many candidates failed to recognise that goods returned to a supplier should not be credited to the firm's purchases account.**

13.     Which of the following statements about a bank overdraft is/are correct?

   (1)  There is no fixed repayment schedule.
   (2)  Its interest is usually charged on a monthly basis.
   (3)  Collateral is usually not required.

   A.  (1) only           (15%)
   B.  (1) and (3) only*     (31%)
   C.  (2) and (3) only     (23%)
   D.  (1), (2) and (3)     (31%)

**Many candidates failed to recognise that interest on a bank overdraft is usually charged on a daily basis.**

18.     Which of the following statements about the Ocean Park Corporation, a public corporation in Hong Kong, are correct?

   (1)  It is listed on the Hong Kong Stock Exchange.
   (2)  Its board of directors is appointed by the government.
   (3)  It is self-sufficient financially.

   A.  (1) and (2) only     (15%)
   B.  (1) and (3) only     (28%)
   C.  (2) and (3) only*     (41%)
   D.  (1), (2) and (3)     (16%)

**Many candidates failed to recognise that the board of directors of a public corporation is appointed by the government.**

22. In the basic listing requirements of the Growth Enterprise Market for new applicants, there is no minimum requirement relating to_____.

| | | |
|---|---|---|
| A. | cash flow | (19%) |
| B. | profit* | (30%) |
| C. | operating history | (25%) |
| D. | market capitalisation | (26%) |

**Many candidates failed to recognise that there is no minimum requirement relating to profit for new applicants in the basic listing requirements of the Growth Enterprise Market.**

## Section B

## Part 1

| Question Number | | Performance in General |
|---|---|---|
| 1 | (a) | Poor. Many candidates confused Nick Limited's consideration on its external technological and economic factors with its internal technical and cost factors related to planning for the online store, e.g. they mentioned whether Nick Limited has sufficient knowledge to design the webpage and capital to establish the online store. |
| | (b) | Fair. Most candidates suggested two strategies for lowering production costs under globalisation. However, in their elaboration some candidates mixed up the outsourcing of the production process with global sourcing. |
| 2 | (a) | Fair. Many candidates were able to state the characteristics of small and medium enterprises (SMEs). However, some candidates gave the characteristics of entrepreneurship as the characteristics of SMEs. |
| | (b) | Poor. Most candidates only stated the characteristics of entrepreneurship without explaining the contribution of entrepreneurship to the development of business based on the given scenario. |
| 3 | (a) | Fair. In (i), most candidates stated the positive impact on the share price because of the generous dividend policy, though they failed to explain the reasons behind this. In (ii), many candidates pointed out that due to the decrease in sales revenue, the share price will decrease. However, they failed to elaborate on the impact of the decrease in sales revenue on the general performance of Darwin Limited which would finally lead to the decrease in share price. |
| | (b) | Fair. Most candidates gave a complete explanation of the going concern assumption. However, many failed to give the correct valuation for the non-current assets. They used net book value, market price, disposal value or fair value in their answers. |

**Part 2**

| Question Number | Popularity | Performance in General |
|---|---|---|
| 4 (a) | 87% | Good. Most candidates were able to compile the statement of financial position correctly. However, some did not show the format properly and many wrongly classified the bank loan as a non-current liability. Some candidates used abbreviations such as 'bal' and 'Jan' in their presentation. Some failed to state the date of the Capital account balance or gave a wrong date. |
| (b) | | Fair. Many candidates were able to state the leadership style adopted by Mandy. However, some spelt the words 'autocratic' wrongly. |
| (c) | | Poor. Many candidates stated that employees' morale and sense of belonging would be affected without explaining the other disadvantages. |
| 5 (a) | 13% | Poor. Many candidates failed to prepare all the T–accounts correctly because they have deducted the cash discounts from the cost of purchases. They also failed to show the corresponding account name of the other side of the double entries. |
| (b) | | Poor. Many candidates gave 'Management by objectives (MBO)' as the answer. |
| (c) | | Poor. Many candidates gave the advantages of MBO and setting objectives as answers. |

**General comments and suggestions**

In general, candidates were able to demonstrate an understanding of fundamental concepts and definitions in business but were weak in applying their knowledge to the scenarios. Candidates should improve their ability to elaborate their answer with reference to the scenario so that they can properly apply their business knowledge and understanding.

**Paper 2B (Business Management Module)**

**Section A**

| Question Number | | Performance in General |
|---|---|---|
| 1 | | Good. Most candidates were able to explain three types of risk management strategy for the shipping company. However, some of them suggested using a 'risk avoidance strategy' which was not appropriate in this situation. |
| 2 | | Poor. Some candidates were able to suggest three product strategies that a travel agency could adopt to attract customers but some suggested strategies belonging to 'promotion strategies', which were not appropriate to the requirements of the question. |
| 3 | | Fair. Some candidates were able to suggest three internal communication programmes using appropriate examples in their elaboration. |
| 4 | (a) | Satisfactory. Most candidates were able to calculate the trade receivables turnover. |
| | (b) | Poor. Most candidates failed to mention the elements of the credit policy and some explained only the remedial actions instead of making comments on the existing credit policy. |

**Section B**

| Question Number | | Performance in General |
|---|---|---|
| 5 | (a) | Poor. Most candidates failed to describe the operating cycle and explain why the cash conversion cycle of the food truck business is relatively short. |
| | (b) | Poor. Some candidates only focused on the general limitations of using budgetary control without considering the context specified in the case, e.g. some management issues may not be applicable to the scale of the food truck business described in the case. |
| | (c) | Poor. Most candidates were able to explain the meaning of the 'marketing concept'. However, many of them failed to give a relevant example for the food truck which sells desserts. |
| | (d) | Fair. Most candidates were able to give correct bases of market segmentation and provide a clear explanation. However, relevant case specific examples were not given to support the answer. |
| 6 | (a) | Poor. Some candidates misinterpreted the meaning of 'freezing' the basic salary as 'cancelling' the basic salary. The answers focused wrongly on staff worries about the inability to maintain their livelihood. |
| | (b) | Satisfactory. Most candidates were able to find relevant information in the case. However, some candidates failed to understand the characteristics of Theory Y type staff, and they wrongly emphasised methods satisfying staff physiological needs, such as providing financial rewards or extra holidays. |
| | (c) | Fair. Most candidates were able to decide that the project should be rejected. However, some of them wrongly concluded that a negative net present value would result in a net loss for the company. |
| | (d) | Satisfactory. Most candidates were able to explain two non-financial factors to support the installation of the robotic arms. |

**Section C**

| Question Number | Popularity | Performance in General |
|---|---|---|
| 7 (a) | 10% | Poor. Most candidates were unable to describe clearly the two cost components under the Economic Order Quantity Model. Some candidates mixed up the cost components and did not understand the costs trade-off involved in this model. They also failed to explain how the total inventory cost can arrive at its minimum and how the optimal order quantity can be determined. |
| (b) | | Poor. Some candidates were able to explain the factors that the company should consider when deciding whether to distribute the bicycles to customers through middlemen, with appropriate examples. However, many candidates failed to provide relevant examples to answer the question. In addition, some candidates wrongly focused on factors related to choosing appropriate middlemen. |
| 8 (a) | 90% | Satisfactory. Most candidates were able to 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. They generally provided relevant examples, though some were confused about the difference between experimental research and observational research. Some candidates mixed up data collection methods and sources of data. |
| (b) | | Fair. Most candidates were able to describe clearly the steps in conducting a performance appraisal for the course instructors, giving a detailed explanation and appropriate illustrations. However, some failed to explain all the key steps and some mixed up the steps. Some candidates misinterpreted the question as asking for the qualifications and standard required for recruiting course instructors for the language learning centre. |

**General comments and suggestions**

Candidates need to pay attention to the important issues of the meaning and requirements of questions. This is particularly true in questions when qualifying conditions are set, such as case questions, in which a more specific answer is required and other important arguments are hinted.