

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS &**

**HONG KONG ASSOCIATION FOR BUSINESS EDUCATION**

**HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION**

**2018/19**

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**

**MOCK EXAMINATION**

**PAPER 1**

**(SUGGESTED MARKING SCHEME)**

**SECTION A (60 marks) Multiple-choice Questions**

Suggested Answers for Multiple Choices: 30@2% = 60%

|    |    |    |    |    |    |    |    |    |    |
|----|----|----|----|----|----|----|----|----|----|
| 1  | 2  | 3  | 4  | 5  | 6  | 7  | 8  | 9  | 10 |
| D  | B  | D  | B  | B  | D  | A  | C  | C  | B  |
| 11 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 19 | 20 |
| C  | A  | D  | D  | A  | B  | C  | A  | C  | B  |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 29 | 30 |
| D  | D  | C  | D  | B  | C  | A  | D  | A  | D  |

**Section B (30 marks)**

**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

(Suggested Answers)

**SECTION B (30 marks) Short Questions**

**Part I**

**Question 1**

|  |  |   |
|--|--|---|
| (a)  | <p>The social factor that may affect the decision:</p> <ul style="list-style-type: none"> <li>- Age distribution: Horror movie is not suitable for children and the decision will be affected by the proportion of adult population. / Young people are fond of excitement and the decision will be affected by the proportion of young population matters.</li> <li>- Sex Ratio: Men prefer action and horror movies more than women. Therefore, larger male population will have greater advantage to the project.</li> <li>- Education level: The technical requirements to produce a 3D movie are demanding and hence requires technical workforce with higher education level. / The education level of the audience improves and they demand for high quality 3D movies.</li> <li>- Local culture: The culture of a country which prefers a taste for adventure / prefers high tech 3D movies will be a favourable condition for 3D horror movie and have greater advantage to the project.</li> </ul> | 2 |
| (any 1 of the above: 1 mark for title and 1 mark for elaborations, max. 2 marks) |  |   |

|     |  |   |
|-----|--|---|
| (b) | Unity of Command   | 1 |
| (c) | <p>Problem:</p> <p>Conflicting instructions from two different superiors may confuse Katy / may diminish Katy's working efficiency.</p> <p>Or Too much workload assigned by two superiors for Katy.</p> <p>Or Individual superior could not monitor Katy's work effectively. (1)</p> <p>Method to fix the problem:</p> <p>Recruit another employee and assign the new employee and Katy to be the direct subordinate of Ben and Jerry respectively.</p> <p>Or Only allow one superior to assign work to Katy so that the superior could accurately comprehend her workload</p> <p>Or Katy should report to one superior for her working progress (1)</p> | 2 |

|     |  |
|-----|--|
| (a) | Pre-retirement stage (1)<br>- Financial needs:<br>- Retirement planning / Saving for retirement / Supporting future daily living expenditures<br>- Medical insurance / Future medical expenses<br>(max. 1 mark for any relevant point)   |
| (b) | A possible reason for market risk to occur:<br>- Financial tsunami may cause massive changes in economic conditions.<br>- Wars may induce unstable political environment.<br>- Sudden occurrence of a catastrophe such as major earthquake may disrupt the whole economic system.<br>(Max. 1 mark for each relevant point) |

Question 2

|            |  |
|------------|--|
| Question 3 | (a) Business entity concept / Entity concept (1) has been violated.  |
|            | In this case, the antique vase is used in the company (to attract more customers) and should be recorded in the company's book but not in David's entity separately. (1)<br>Note: Historical cost concept is not involved. The cash drawing is actually \$120,000 and the cost of the vase is \$100,000. |
| (b)        | Dr. Antique vase \$100,000 (1/2)<br>Cr. Drawings or Capital \$100,000 (1/2)  |

|     |  |
|-----|--|
| (c) | Step 1: He should set performance standard, such as setting an acceptable upper limit of complaints.<br>Step 2: He should measure the actual performance, such as identifying the number of complaints received recently.<br>Step 3: He should compare the actual performance with the standard such as deciding whether the number of complaints received from customers is higher or lower than expected.<br>Step 4: He should take corrective actions such as replacing the store keeper if the complaints are mainly about the service quality / revising the performance standard to a more reasonable level.<br>(1 mark for each correct step with relevant example in sequence, max. 4 marks) |
|-----|--|

Question 4

|            |   |
|------------|---|
| Question 4 | The interrelationship between financial management and marketing management:<br>1. The marketing managers help to launch surveys to assess feasibility of developing the market and its market potential, such as assessing the volume of sales. Such information will help the financial manager to compile the cash budget or to finance the required capital.<br>2. In accordance with the budget, the financial managers will arrange the required capital using the most suitable financing options while the marketing managers use it for the marketing activities. This is to ensure that enough financial resources is made available for carrying out the marketing plan.<br>3. Financial manager could formulate the policy for debts collection policy for the marketing department to determine a competitive sales strategy.<br>(2 marks for each relevant point, max. 4 marks) |
|------------|---|

Part II

Question 5

|                              |  |
|------------------------------|--|
| 2017 Gross profit percentage | $\frac{\$5100-100-1800}{\$5100-100} * 100\% = 64\% (1/2)$          |
| 2018 Gross profit percentage | $\frac{\$8200-200-4000}{\$8200-200} * 100\% = 50\% (1/2)$          |
| 2017 Net profit percentage   | $\frac{\$5100-100-1800-1200-600}{\$5100-100} * 100\% = 28\% (1/2)$ |
| 2018 Net profit percentage   | $\frac{\$8200-200-4000-1920-880}{\$8200-200} * 100\% = 15\% (1/2)$ |

Albee's complaint is not valid. Or The drop in profit is not due to the increase in expenses. Or The drop in profit is mainly due to the increase of cost of goods/purchases. (1)

Max 3 marks

The net profit percentage decreased and at the same time gross profit percentage also decreased too. (1)

The drop in gross profit percentage (64% - 50% = 14%) is even greater than the drop in net profit percentage (28% - 15% = 13%) Or

The percentage increase in cost of goods sold (by 122.2%) is greater than the percentage increase in total expenses (by 55.6%) (1)

In order to improve the situation, Albee should either request the franchisor to cut the unit cost price or reduce the sales discount in the sales promotion. (1)

(5 marks)

|     |  |   |
|-----|--|---|
| (b) | Nominal accounts are accounts that will be closed off at the end of an accounting cycle or whose balances will be shown in the income statement. (1/2)<br>Sales, Cost of goods sold, Returns inwards, Royalty fee, Other operating expenses. (1/2 for any one of the above)  | 1 |
| (c) | Argument for joining the present franchise:<br>- The goodwill of the franchised shop did attract customers and created profit for the shop.<br>- Franchised shop is easy to set up as the franchisor provides constructive advice to Alibee.<br>- Alibee can obtain various supports from the franchisor such as marketing, inventory supplies, accounting and management.<br>- Alibee enjoys the benefits of buying stocks in bulk through the franchisor.<br>(1 mark for any one, max two) | 2 |
|     | Argument against joining the present franchise:<br>- Alibee is required to pay promotional and royalties fees to the franchisor irrespective of whether or not a profit is earned.<br>- Alibee loses her independence in operating her business as the franchisor has much control over the operations. e.g. no choice to buy from other suppliers.<br>(1 mark for any one, max two)   | 2 |

## Question 6

(a) Marks

| Trade payables |                    |            |        |           |            |
|----------------|--------------------|------------|--------|-----------|------------|
| 2018           |                    | \$'000     | 2018   |           | \$'000     |
| Dec 31         | Discounts received | 3          | Dec 31 | Purchases | 803        |
| Dec 31         | Bank               | 770        |        |           |            |
| Dec 31         | Balance c/d        | 30         |        |           |            |
|                |                    | <u>803</u> |        |           | <u>803</u> |

1/2 marks for any two correct answers

## Kingsley

## Income statement for the year ended 31 December 2018

|  | \$'000    | \$'000     | \$'000     |     |
|--|-----------|------------|------------|-----|
| Turnover   |           |            | 1,500      | *   |
| Less: Cost of Sales                                |           |            |            |     |
| Purchases (803,000 + 130,000 (0.5) – 20,000 (0.5)) | 913       |            |            | 1   |
| Add: Carriage inwards                              | <u>15</u> | 928        |            | 0.5 |
| Less: Closing inventory (Balancing figure)         |           | <u>40</u>  | <u>888</u> | 0.5 |
| Gross profit                                       |           |            | 612        | *   |
| Add: Discounts received                            |           | 3          |            | *   |
| Royalty fee  |           | <u>100</u> | <u>103</u> | 0.5 |
|  |           |            | 715        |     |
| Less: Operating Expenses                           |           |            | <u>450</u> | *   |
| Net profit   |           |            | <u>265</u> | *   |

\* 1/2 marks for every two items i.e. maximum 1.5 marks (5 marks)

|     |   |   |
|-----|---|---|
| (b) | Real accounts are accounts whose balances will be carried forward to the next accounting cycle Or those accounts will appear in the statement of financial position. (1/2)<br>Inventory or Trade payables (1/2)   | 1 |
| (c) | Argument for changing the form of ownership from sole proprietorship to partnership:<br>- Business risk is shared by partners.<br>- Division of work between partners (with different expertise and knowledge contributed to the business by different partners) (1 mark for any one) | 2 |
|     | Argument against changing the form of ownership from sole proprietorship to partnership:<br>- Bound by the decisions of all partners<br>- Lower operational efficiency.<br>- Share of profit with John (1 mark for any one)   | 2 |

End of Paper





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HONG KONG DIPLOMA OF SECONDARY EDUCATION  
EXAMINATION 2018 / 19

BUSINESS, ACCOUNTING AND FINANCIAL STUDIES  
MOCK EXAMINATION

PAPER 2B  
BUSINESS MANAGEMENT MODULE

SECTION A (24 marks)

Marking Scheme

Answer ALL questions in this section.

1. Explain two reasons why the manpower planning is important to a bank's long-term development. (4 marks)
2. Use an example in business to distinguish the differences between the market segmentation and target marketing. (4 marks)
3. Trade credit is commonly used by business organizations as a source of short-term financing. State two costs and two benefits to a supplier granting trade credit to its customers. (4 marks)
4. An initial investment of \$8,320,000 on plant and machinery is expected to generate cash inflows of \$3,411,000, \$4,070,000, \$5,824,000 at the end of first, second and third year respectively. At the end of the third year, the machinery will be sold for \$900,000.
  - (a) Calculate the net present value (NPV) of the investment if the discount rate is 18%. (2 marks)
  - (b) State two advantages of using the NPV method over the payback method in capital investment appraisal. (4 marks)

SECTION A

Answer ALL questions in this section.

|    |  |   |
|----|--|---|
| 1. | <p><b>Two reasons why manpower planning is important to a bank's long-term development :</b></p> <ul style="list-style-type: none"> <li>● Determine and predict future manpower needs (help a bank ensure that it has sufficient qualified employees to continuously achieve its objectives)</li> <li>● Provide a necessary basis for designing and implementing staffing ( provide a guidance to a bank in staffing)</li> <li>● Adjust manpower requirement according to environmental changes/government employment legislations ( help a bank to match its manpower requirement to the changing environment/government employment legislations)</li> </ul> <p>( 2 points with relevant elaboration to a bank 2 x 2m@=4m )</p>   | 4 |
| 2. | <p><b>Market segmentation and target marketing are two steps of the marketing process.</b></p> <ul style="list-style-type: none"> <li>● First of all, a seller divides the potential market into smaller consumer groups with distinct needs, characteristics and consumption patterns. e.g. A smartphone seller segment potential buyers by demographic variables such as income and ages.</li> <li>● Then, the seller selects the most promising segment and concentrates on selling to them. The selected segment is called a target market. e.g. A smartphone seller concentrates on selling trendy looking smartphones for youngsters.</li> </ul> <p>(2 differences with any relevant examples x 2m@=4m )</p>   | 4 |
| 3. | <p><b>Two costs and two benefits to a supplier granting trade credit to its customers:</b></p> <p>Cost:</p> <ul style="list-style-type: none"> <li>● Financing costs _ Liquidity: The supplier will have lower liquidity if it grants trade credits to customers as the supplier cannot receive cash immediately from credit sales.</li> <li>● Financing costs _ Profitability: The supplier's money will be tied up in accounts receivable and he will forgo the potential return from investing the money.</li> <li>● Bad debts costs / operating costs _ Profitability: The supplier will suffer a loss if the accounts receivable becomes bad debts. (2 costs x 1m@=2m )</li> </ul> <p>Benefits:</p> <ul style="list-style-type: none"> <li>● Market share: Trade credit can attract customers who cannot afford to purchase in cash. Market share thus increases.</li> <li>● Sales: Trade credit offers greater payment flexibility to customers as they can choose to keep more cash on hand in the current period. Therefore, they are more willing to purchase from the supplier. Sales thus increase. (2 benefits x 1m@=2m )</li> </ul> | 4 |
| 4. | <p>(a) <math display="block">\text{Net present value} = \left( \frac{\\$3\,411\,000}{1.18^1} + \frac{\\$4\,070\,000}{1.18^2} + \frac{\\$5\,824\,000}{1.18^3} + \frac{\\$900\,000}{1.18^3} \right) - \\$8\,320\,000</math></p> <p style="text-align: right;">= \$1 586 thousand (2m)</p> <p>(b) <b>Advantages of the NPV method over the payback method:</b></p> <ul style="list-style-type: none"> <li>● Time value of money is considered. Cash flows that occur in different years are thus directly comparable</li> <li>● It can compare investment projects more fairly as all cash flows are considered</li> <li>● NPV is expressed in monetary terms and is directly linked to the firm value. NPV directly reflect the absolute worth of the project (2 advantages x 2m@=4m )</li> </ul>  | 6 |

5. With reference to the Herzberg's Dual-factor Theory, suggest three ways in which a sales manager can help solve the problems of working dissatisfaction among salesmen in a department store.

(6 marks)

|    |   |   |
|----|---|---|
| 5. | <p>The sales manager could provide <u>hygiene factors</u> to reduce the working dissatisfaction among the salesmen.</p> <ul style="list-style-type: none"><li>● Salary: ensure the wage level is competitive, e.g. higher salaries, bonuses and benefits that help raise living standard of the salesmen and thus improve their working attitude</li><li>● Security: provide enough job security, e.g. permanent contract, comprehensive insurance protection, safe working environment</li><li>● Relationship with supervisors and colleagues: e.g. create the culture of respect and dignity for all team members, supportive supervision</li><li>● Physical working condition e.g. flexible working hours, better ventilated working environment, availability of canteen facilities</li><li>● Company policy and administration: e.g. ensure more transparent policies about the allocation of salesmen's duties, fix inefficient administrative procedures</li></ul> | 6 |
|----|---|---|

( 3 points with relevant elaboration x 2m@=6m )



## SECTION B (36 marks)

Answer ALL questions in this section.

6. For over 55 years, Winner Bank has earned a reputation as an outstanding financial institution. In the early years, international trade financing was Winner Bank's main business. As Hong Kong's economy developed, the Bank gradually moved to retail banking in response to the changing demand of its customers. In 2005 the bank set up a Personal Financial Planning Department to better serve customers' changing consumption behaviour in using financial services.

In a monthly senior executives meeting, Fiona, the Head of Personal Financial Planning Department, proposed to hire 40 qualified financial planners from outside by the end of the year. She explained, "Hong Kong people are particularly in need of effective financial planning to prepare for their retirement and to achieve their financial goals."

Jenny, the Head of Human Resources Department, responded, "I can understand the rationale to expand our financial planning services. However, I wonder why we have to hire from outside under the current circumstances of very low unemployment rate in Hong Kong. Why don't we consider internal transfer? We will replace two traditional staffed branches with automatic banking centres in the coming months. There are altogether 60 staff who will be affected and they can be transferred to your Department."

Jenny continued, "Although these staffs do not have knowledge in financial planning, I have had a comprehensive training programme that employs both external and internal learning methods. The external partner of the programme is the Hong Kong Advanced Investors Education Association, which will provide 36 days of classroom lectures divided into three phases. In between these phases, participants will undergo job attachment training at one of our branches under the direction of an experienced qualified Financial Planning Manager."

David, the Head of Marketing Department, said, "The training programme sounds good. But I think that a series of advertising programmes could be launched to promote financial planning services to our customers."

Fiona replied, "We have already paid a lot of effort to establish good relations with our customers. I know advertising is good, but personal selling is more crucial to our success. So, I suggest hiring additional financial planners to perform the function of personal selling. I want to hire from outside in order to avoid the limitations of internal transfer."

- (a) Describe two advantages of the training programme proposed by Jenny. (4 marks)
- (b) Explain one socio-cultural factor and one psychological factor that affect customers' behaviour in choosing financial planning services. (4 marks)
- (c) Give two reasons to support Fiona's viewpoint that personal selling is more important than advertising. (4 marks)
- (d) State three limitations of Jenny's proposed method of hiring financial planners. (3 marks)
- (e) Suggest three types of suitable recruitment methods to Fiona on hiring additional financial planners. (3 marks)

(Total 18 marks)

## SECTION B

### QUESTION 6

|     |  | Mark |
|-----|--|------|
| (a) | The advantages are:<br>External: off-the-job training:<br><ul style="list-style-type: none"> <li>higher quality training given by professionals</li> <li>free from pressures and special exercises can be used</li> <li>easier to calculate the cost and less costly in the long-term</li> </ul> Internal attachment: on-the-job training:<br><ul style="list-style-type: none"> <li>actual work environment: no problem on transfer of learning</li> </ul>  | 4    |
|     | (2 marks for every relevant benefit with explanation, max 4 marks)   |      |
| (b) | Socio-cultural factors and Psychological factors:<br>Socio-cultural factors:<br><ul style="list-style-type: none"> <li>Culture/ subculture: e.g. Influenced by Chinese culture, parents in Hong Kong tend to support their children financially even though they become adults → financial planning focuses on children's well-being.</li> <li>Social class: e.g. people from upper social class care more about wealth management and estate planning while middle class clients focus more on saving for retirement.</li> <li>Reference group:<br/>e.g. Advice from financial experts or family members will influence an individual's choice of financial planning services</li> </ul> Psychological factors:<br><ul style="list-style-type: none"> <li>Motivation: Individuals need different kinds of financial services to satisfy their different levels of needs e.g. sufficient insurance policies to satisfy safety needs</li> <li>Personality and self-concept: e.g. Conservative persons will demand a more conservative financial plan</li> </ul> | 4    |
|     | (2 marks for every factor with explanation, max 4 marks)   |      |
| (c) | The reasons are:<br><ul style="list-style-type: none"> <li>investment services are highly heterogeneous</li> <li>a high degree of interaction between financial planners and customers</li> <li>investment services involve a lot of information and need an explanation</li> <li>a relationship needs time to build up by financial planners</li> </ul>   | 4    |
|     | (2 marks for every relevant reason with explanation, max 4 marks)  |      |
| (d) | The limitations are:<br><ul style="list-style-type: none"> <li>not all bank staffs are interested in financial planning / are competent to be or capable of being a financial planner</li> <li>it takes a longer time to train a bank staff to become a qualified financial planner and productive</li> <li>limited pool of candidates, lose chance to find the best qualified candidates from outside</li> <li>no new ideas brought to the bank</li> </ul>  | 3    |
|     | (1 mark for every factor with explanation, max 3 marks)  |      |
| (e) | Three types of suitable recruitment methods :<br><ul style="list-style-type: none"> <li>-Advertising in the mass media or on the internet or the bank's website</li> <li>-Employment agencies</li> <li>-Employee referral</li> <li>-Job fairs</li> </ul>   | 3    |
|     | (1 mark for every suitable recruitment method, max 3 marks)  |      |
|     |  | 18   |



Faithful Department Store Group is one of the Hong Kong's oldest retail groups. The Group is mainly engaged in retailing business and actively bringing high quality products from all over the world. Currently, The Group has five department stores in Hong Kong and two department stores in the Mainland China.

In a management meeting, Edmond, the Chairman, said, "Over the last few years, our sales are dropping. Looking ahead, with the negative impact from the stock market volatility, comparatively high rent and wages, a strong US dollar and a decline in number of Mainland Chinese tourists, the industry prospect is not optimistic."

Cathy, the Financial Controller, replied, "That is true. Our financial position is weakening, and remedial actions must be taken as soon as possible."

Tommy, the Marketing Manager, responded, "It is important to increase our sales indeed. As more people are getting used to the Internet and online shopping, I am thinking of adopting e-marketing strategies by setting up an online shop to expand our business. We can shift our emphasis from traditional marketing to e-marketing."

Edmond asked Cathy, "How is our company's financial situation? Do you have any idea to cut operating costs?" He then turned to Tommy, "What are the benefits of e-marketing? Can we attract more customers?"

Cathy said, "I can show you some ratios and tell you our problems. Different divisions may suggest different approaches to cut costs. For me, I think an effective budget control can help. We can require all divisions to strictly follow their projected budgets. Any variations between their projected and actual budgets would result in heavy penalties."

Edmond responded, "I do not agree with your method to implement budgetary control to reduce costs. It certainly does not work."

The following is an extract of the financial statements of Faithful Department Store:

|                            | 2017<br>(in \$'000) | 2018<br>(in \$'000) |
|----------------------------|---------------------|---------------------|
| Net Sales                  | 108,084             | 102,345             |
| Cost of Goods Sold         | 34,846              | 37,884              |
| Operating and Tax Expenses | 62,198              | 64,383              |
| Average Inventory          | 40,666              | 53,886              |
| Non-current Assets         | 35,995              | 32,521              |
| Current Assets             | 131,889             | 128,066             |
| Non-current Liabilities    | 23,741              | 18,865              |
| Current Liabilities        | 87,613              | 95,890              |
| Shareholders' Equity       | 56,530              | 45,832              |

- (a) Compute (to two decimal places) the following ratios for Faithful Department Store of the years 2017 and 2018: (4 marks)
- Inventory turnover
  - Current ratio
  - Net profit margin
  - Return on capital employed
- (b) Based on the ratios calculated in (a), give two suggestions to Faithful Department Store to improve its financial situation. (4 marks)
- (c) Explain three benefits of e-marketing by setting up an online shop to Faithful Department Store. (6 marks)
- (d) Suggest two limitations of adopting budgetary control as a tool to cut costs. (4 marks)

(Total: 18 marks)

### QUESTION 7

Marks

| (a)                        | The ratios are:   | 4  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
|----------------------------|---|--|------|------|--------------------|--------------------------------------|--------------------------------------|---------------|---------------------------------|---------------------------------|-------------------|---|--|----------------------------|--|---|--|
|                            | <table border="1"> <thead> <tr> <th></th> <th>2017</th> <th>2018</th> </tr> </thead> <tbody> <tr> <td>Inventory turnover</td> <td><math>\frac{34,846}{40,666} = 0.86</math> times</td> <td><math>\frac{37,884}{53,886} = 0.70</math> times</td> </tr> <tr> <td>Current ratio</td> <td><math>\frac{131,889}{87,613} = 1.51</math></td> <td><math>\frac{128,066}{95,890} = 1.34</math></td> </tr> <tr> <td>Net profit margin</td> <td><math>\frac{11,040}{108,084} \times 100\% = 10.21\%</math></td> <td><math>\frac{78}{102,345} \times 100\% = 0.08\%</math></td> </tr> <tr> <td>Return on capital employed</td> <td><math>\frac{11,040}{80,271} \times 100\% = 13.75\%</math></td> <td><math>\frac{78}{64,697} \times 100\% = 0.12\%</math></td> </tr> </tbody> </table>  |  | 2017 | 2018 | Inventory turnover | $\frac{34,846}{40,666} = 0.86$ times | $\frac{37,884}{53,886} = 0.70$ times | Current ratio | $\frac{131,889}{87,613} = 1.51$ | $\frac{128,066}{95,890} = 1.34$ | Net profit margin | $\frac{11,040}{108,084} \times 100\% = 10.21\%$ | $\frac{78}{102,345} \times 100\% = 0.08\%$ | Return on capital employed | $\frac{11,040}{80,271} \times 100\% = 13.75\%$ | $\frac{78}{64,697} \times 100\% = 0.12\%$ |  |
|                            | 2017  | 2018                                       |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
| Inventory turnover         | $\frac{34,846}{40,666} = 0.86$ times  | $\frac{37,884}{53,886} = 0.70$ times       |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
| Current ratio              | $\frac{131,889}{87,613} = 1.51$   | $\frac{128,066}{95,890} = 1.34$            |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
| Net profit margin          | $\frac{11,040}{108,084} \times 100\% = 10.21\%$   | $\frac{78}{102,345} \times 100\% = 0.08\%$ |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
| Return on capital employed | $\frac{11,040}{80,271} \times 100\% = 13.75\%$  | $\frac{78}{64,697} \times 100\% = 0.12\%$  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
|                            | (0.5 mark for every ratio, max 4 marks)   |  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
| (b)                        | Suggestions to improve Faithful Department Store's financial situation are:   | 4  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
|                            | <ul style="list-style-type: none"> <li>the inventory turnover ratio indicates the problem of inefficiency in the utilization of assets in generating sales. The department store should lower the inventory level by establishing a better relationship with suppliers, to have a better forecast of the fashion trend, and a better inventory control.</li> <li>the current ratio indicates the department store may not have enough current assets to cover its current liabilities. The department store should try to reduce its current liabilities.</li> <li>the net profit margin and return on capital employed ratios indicate lower ability to generate profit or higher operating expenses. The department store should find ways to improve sales and to reduce the expenses.</li> </ul>  |  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
|                            | (2 mark for every relevant suggestion, max 4 marks)   |  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
| (c)                        | Benefits of e-marketing by setting up an online shop are:   | 6  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
|                            | <ul style="list-style-type: none"> <li>e-marketing enables the department store to have a global reach and can access to customers not only in Hong Kong but in different places of the world</li> <li>The business can operate 24 hours a day and seven days a week (round-the-clock operation). Sales can be made even though the physical stores are closed.</li> <li>e-marketing has the advantages of lower operating costs in terms of advertising and in communicating with customers/ selling information can be changed easily e.g. regarding the price changes, an e-commerce store's prices can be changed in the back end by simply changing the products' price field.</li> <li>The e-marketing can build a one-to-one relationship with customers. Through search tools and customer profiles, information can be tailored to customer requirements on demand. Direct communication is enhanced.</li> <li>e-marketing can easily target at selected customers / easy to measure the successfulness of online marketing campaign and improvement can be made promptly</li> </ul> |  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
|                            | (2 marks for every relevant reason with explanation, max 6 marks)   |  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
| (d)                        | Limitations of the Cathy's budgetary control proposal:  | 4  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
|                            | <ul style="list-style-type: none"> <li>some divisions are more stable than the others and are easier to accurately estimate the expenses. Thus, the required degree of accuracy should vary from division to division.</li> <li>too rigid budgetary control will prevent divisions to have fast response to environmental changes</li> <li>budgetary control focuses on numbers like sales targets rather than behaviour issues like customer satisfaction</li> </ul>   |  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
|                            | (2 marks for every relevant reason with explanation, max 4 marks)   |  |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |
|                            |   | 18   |      |      |                    |                                      |                                      |               |                                 |                                 |                   |   |  |                            |  |   |  |



**SECTION C (20 marks)**

Answer ONE question in this section.

8. With the Mainland tourist numbers declining over the past year and more people booking online, travel agencies are looking for new strategies to attract and retain customers. Facing the tourism downturn, many travel agencies have begun to utilize the power of big data to find ways to boost sales through personalization of travellers’ experiences to cope with the fierce competition in the travel industry.

(a) In terms of customer relationship management, explain how travel agencies can attract and retain customers by utilizing the power of big data .

(8 marks)

(b) With respect to the marketing mix strategies, compare and contrast the differences between the travel agencies’ services provided to school study tours and general package tours.

(12 marks)

(Total: 20 marks)

**SECTION C**

Answer ALL questions in this section.

| 8.        |  | Marks  |                   |                      |         |  |  |       |   |   |           |   |  |       |   |   |    |
|-----------|--|--|-------------------|----------------------|---------|--|--|-------|---|---|-----------|---|--|-------|---|---|----|
| (a)       | <p><b>The importance of big data to customer relationship management:</b></p> <ul style="list-style-type: none"> <li>● Identify valuable customers: customer behavior analysis allows the travel agency to identify the most valuable customers by tracing their patronizing frequency. Therefore, more resources could be put into the most profitable customers and more long-term customer relationship can be developed.</li> <li>● Tailor offerings to each customer: the travel agency understands more the needs and requirements of its existing customers by analyzing customer satisfaction surveys. More tailor-made tours and promotion programs can be offered to specific customers.</li> <li>● Facilitates cross-selling: big data analysis through order tracking allows the travel agency to offer alternate tour suggestions and other travel accessories to meet customer needs.</li> <li>● Effective communication with customers: Through the collection of personal data e.g. email address via e-channels, the travel agency can send promotional notifications to its customers from time to time. Long-term relationship can be established. Direct communication improve pre-sale and post-sales supports.</li> </ul> <p>(2 marks for each point with relevant explanation, max 8 marks)</p>   | 8  |                   |                      |         |  |  |       |   |   |           |   |  |       |   |   |    |
| (b)       | <p><b>Compare and contrast the marketing strategies</b></p> <table border="1" data-bbox="1167 778 2056 1406"> <thead> <tr> <th data-bbox="1167 778 1326 810"></th> <th data-bbox="1326 778 1675 810">School study tour</th> <th data-bbox="1675 778 2056 810">General package tour</th> </tr> </thead> <tbody> <tr> <td data-bbox="1167 810 1326 995">Product</td> <td data-bbox="1326 810 1675 995"> <ul style="list-style-type: none"> <li>● More tailor-made tour itinerary</li> <li>● More tour support with pre-tour negotiation and after-tour evaluation</li> </ul> </td> <td data-bbox="1675 810 2056 995"> <ul style="list-style-type: none"> <li>● More standardized tour itinerary /packages for individual travellers’ choices</li> <li>● Less tour support without pre-tour negotiation and after-sales evaluation</li> </ul> </td> </tr> <tr> <td data-bbox="1167 995 1326 1114">Price</td> <td data-bbox="1326 995 1675 1114"> <ul style="list-style-type: none"> <li>● Bidding pricing (travel agency’s response to the school’s tour tender)</li> <li>● Bulk discount</li> </ul> </td> <td data-bbox="1675 995 2056 1114"> <ul style="list-style-type: none"> <li>● Standardized price list</li> <li>● Promotional discount</li> </ul> </td> </tr> <tr> <td data-bbox="1167 1114 1326 1318">Promotion</td> <td data-bbox="1326 1114 1675 1318"> <ul style="list-style-type: none"> <li>● Promotional letter or information sent to schools by email</li> <li>● By own sales force to contact schools</li> </ul> </td> <td data-bbox="1675 1114 2056 1318"> <ul style="list-style-type: none"> <li>● Promotion by mass advertising. e.g. newspaper, magazines and internet advertising</li> <li>● Promotion by salesmen to walk-in customers in travel firm</li> </ul> </td> </tr> <tr> <td data-bbox="1167 1318 1326 1406">Place</td> <td data-bbox="1326 1318 1675 1406"> <ul style="list-style-type: none"> <li>● Direct channel by its own sales force to schools(selective)</li> </ul> </td> <td data-bbox="1675 1318 2056 1406"> <ul style="list-style-type: none"> <li>● Direct channel through its own travel branches(intensive)</li> </ul> </td> </tr> </tbody> </table> <p>(3 marks for each point with relevant comparison and application, max. 12 marks)</p> |  | School study tour | General package tour | Product | <ul style="list-style-type: none"> <li>● More tailor-made tour itinerary</li> <li>● More tour support with pre-tour negotiation and after-tour evaluation</li> </ul> | <ul style="list-style-type: none"> <li>● More standardized tour itinerary /packages for individual travellers’ choices</li> <li>● Less tour support without pre-tour negotiation and after-sales evaluation</li> </ul> | Price | <ul style="list-style-type: none"> <li>● Bidding pricing (travel agency’s response to the school’s tour tender)</li> <li>● Bulk discount</li> </ul> | <ul style="list-style-type: none"> <li>● Standardized price list</li> <li>● Promotional discount</li> </ul> | Promotion | <ul style="list-style-type: none"> <li>● Promotional letter or information sent to schools by email</li> <li>● By own sales force to contact schools</li> </ul> | <ul style="list-style-type: none"> <li>● Promotion by mass advertising. e.g. newspaper, magazines and internet advertising</li> <li>● Promotion by salesmen to walk-in customers in travel firm</li> </ul> | Place | <ul style="list-style-type: none"> <li>● Direct channel by its own sales force to schools(selective)</li> </ul> | <ul style="list-style-type: none"> <li>● Direct channel through its own travel branches(intensive)</li> </ul> | 12 |
|           | School study tour  | General package tour   |                   |                      |         |  |  |       |   |   |           |   |  |       |   |   |    |
| Product   | <ul style="list-style-type: none"> <li>● More tailor-made tour itinerary</li> <li>● More tour support with pre-tour negotiation and after-tour evaluation</li> </ul>   | <ul style="list-style-type: none"> <li>● More standardized tour itinerary /packages for individual travellers’ choices</li> <li>● Less tour support without pre-tour negotiation and after-sales evaluation</li> </ul> |                   |                      |         |  |  |       |   |   |           |   |  |       |   |   |    |
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|           |  | 20   |                   |                      |         |  |  |       |   |   |           |   |  |       |   |   |    |

9. A recent survey shows that the rise in popularity of food delivery apps in Hong Kong is caused by rapid changes in the city's traditional catering industry and the mobile app development industry. Many mobile app development companies invest a lot to recruit young and creative app designers for their expansion in this competitive market.

(a) In terms of risk management, identify and explain different types of insurable and non-insurable risks faced by a mobile app development company.

(8 marks)

(b) With reference to the compensation and benefit management, compare and evaluate the effectiveness of using monetary incentives to enhance the job performance of food delivery app designers and food delivery workers.

(12 marks)

(Total: 20 marks)

END OF PAPER

| 9.                      |  | Marks  |                              |                       |            |  |   |                         |  |  |                  |   |   |          |   |  |    |
|-------------------------|--|--|------------------------------|-----------------------|------------|--|---|-------------------------|--|--|------------------|---|---|----------|---|--|----|
| (a)                     | <p><b>Different types of insurable and non-insurable risks faced by a mobile app development company :</b></p> <ul style="list-style-type: none"> <li>● <b>Insurable risk-</b> a pure risk that involves the possibility of <i>loss only</i>. ( non-speculative, accidental and uncontrollable, the probability of occurrence must be predictable etc.)<br/>e.g. fire / burglary / employees' accidents in company / lawsuits against the app development<br/>(*meaning and explanation 2 marks , examples 2 marks, max 4 marks. )</li> <li>● <b>Non-insurable risk-</b> a speculative risk that involves the possibility of <i>both loss and profit</i>.( non-accidental , the probability of occurrence not predictable etc.)<br/>e.g. Rise or fall in sales and cost of mobile apps design business ( economic trend)/<br/>Popularity of customer s' using mobile apps (food delivery apps) /<br/>Competition ( Increase or decrease in number of mobile apps competitors)<br/>(*meaning and explanation 2 marks and examples 2 marks, max 4 marks )</li> </ul>   | 8  |                              |                       |            |  |   |                         |  |  |                  |   |   |          |   |  |    |
| (b)                     | <p><b>Compare and evaluate the effectiveness of monetary rewards to enhance the job performance :</b></p> <table border="1"> <thead> <tr> <th></th> <th>Food delivery Apps designers</th> <th>Food delivery workers</th> </tr> </thead> <tbody> <tr> <td>Job Nature</td> <td>● The design job is creative and aims to be user-friendly for customers, monetary rewards cannot enhance the designers' creativity in performance.</td> <td>● The food delivery job is more stable and predictable, monetary rewards can enhance workers' efficiency.</td> </tr> <tr> <td>Performance measurement</td> <td>● The design job is difficult to quantify and therefore difficult to link monetary rewards with performance.</td> <td>● The delivery workers' performance is more measurable and therefore easier to link with monetary rewards.</td> </tr> <tr> <td>Needs difference</td> <td>● Have higher level needs for achievement and status, therefore monetary incentive is less effective.</td> <td>● Have basic needs and safety for monetary rewards, therefore monetary incentive is more effective.</td> </tr> <tr> <td>Fairness</td> <td>● Monetary incentive is more difficult to execute and less receptive.</td> <td>● Monetary incentive is easier and perceived to be fairer.</td> </tr> </tbody> </table> <p>(3 marks for each point with relevant comparison and application, max. 12 marks)</p> |  | Food delivery Apps designers | Food delivery workers | Job Nature | ● The design job is creative and aims to be user-friendly for customers, monetary rewards cannot enhance the designers' creativity in performance. | ● The food delivery job is more stable and predictable, monetary rewards can enhance workers' efficiency. | Performance measurement | ● The design job is difficult to quantify and therefore difficult to link monetary rewards with performance. | ● The delivery workers' performance is more measurable and therefore easier to link with monetary rewards. | Needs difference | ● Have higher level needs for achievement and status, therefore monetary incentive is less effective. | ● Have basic needs and safety for monetary rewards, therefore monetary incentive is more effective. | Fairness | ● Monetary incentive is more difficult to execute and less receptive. | ● Monetary incentive is easier and perceived to be fairer. | 12 |
|                         | Food delivery Apps designers   | Food delivery workers  |                              |                       |            |  |   |                         |  |  |                  |   |   |          |   |  |    |
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|                         |  | 20   |                              |                       |            |  |   |                         |  |  |                  |   |   |          |   |  |    |

End of Answer