

HONG KONG INSTITUTE of CERTIFIED PUBLIC ACCOUNTANTS

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HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

**HONG KONG DIPLOMA OF SECONDARY EDUCATION
EXAMINATION 2017 / 18**

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES
MOCK EXAMINATION**

**PAPER 2B
BUSINESS MANAGEMENT MODULE**

Marking Scheme

SECTION A

Answer ALL questions in this section.

1.	<p>Two advantages to a company placing advertisements to recruit staff :</p> <ul style="list-style-type: none"> ● Larger coverage and easier to access / attract potential applicants ● Flexibility in size and format in websites to fit the budget ● Cost effectiveness of advertisements in websites(compare with other advertisement media) <p>(2 advantages x 2m@=4m)</p>	4												
2.	<p>Two remedial actions :</p> <ul style="list-style-type: none"> ● Buy material in bulk / find suppliers offer reasonable price of material/ bargain with current suppliers for more discounts ● Train workers to reduce material wastage/better storage of materials to reduce wastage and theft /buy from reputable suppliers to ensure product quality <p>(2 points x 2m@=4m)</p>	4												
3.	<p>Two appropriate internal communication methods :</p> <ul style="list-style-type: none"> ● Prior clear verbal / written communication between senior management and staff → ensure clear and <u>consistent</u> communication at <u>all levels</u> ● Suitable explanation to individual / related staff on the layoff action to be taken→ <u>respectful</u> conversation with affected employees to lessen frustration while showing they are cared by the firm ● Collect feedback from staff representatives or labour union before the layoff action→before or <u>after the mass layoff</u>, the firm can set up focus groups to hear staff feedback on what company can further improve and share the firm’s future direction <p>(Any 2 methods x 2@=4m)</p>	4												
4.	<p>(a) Main objectives of Inventory management :</p> <ul style="list-style-type: none"> ● Maintain an adequate level of inventory to avoid excessive or shortage of inventory(to facilitate smooth sales operations (to meet unpredictable <u>changes in the demand and supply forces.</u>) ● Minimize the costs associated with inventory (e.g. holding and ordering cost) (2m) <p>(b) EOQ and no. of orders</p> <ul style="list-style-type: none"> ● $EOQ = \sqrt{2(D)(CPO)/(UC)(ICC)}$ $= \sqrt{2(6400)(\\$20)/(\\$40)(25\%)} = 160$ batteries (2m) ● No. of orders = $6400 / 160 = 40$ orders/yr (2m) 	6												
5.	<p>(a) Marketing segmentation-the process of dividing a large market into small consumer groups with distinct needs, characteristics and consumption patterns. (2m)</p> <p>(b) Differences in demographic factors</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 20%;"></th> <th style="width: 40%; text-align: center;">Budget hotels</th> <th style="width: 40%; text-align: center;">Five-star hotel</th> </tr> </thead> <tbody> <tr> <td>Age</td> <td>People from <u>different ages</u>, mainly young customers look for low-price rooms</td> <td>Mostly middle-aged and old customers prefer comfortable living environment</td> </tr> <tr> <td>Occupation</td> <td>People from different walks of life</td> <td>Mainly businessmen, executives, and professionals</td> </tr> <tr> <td>Income</td> <td><u>Lower / Middle income group</u></td> <td><u>Middle /Higher income group</u></td> </tr> </tbody> </table> <p style="text-align: right;">(Any 2 demographic factors x 2@ = 4 m)</p>		Budget hotels	Five-star hotel	Age	People from <u>different ages</u> , mainly young customers look for low-price rooms	Mostly middle-aged and old customers prefer comfortable living environment	Occupation	People from different walks of life	Mainly businessmen, executives, and professionals	Income	<u>Lower / Middle income group</u>	<u>Middle /Higher income group</u>	6
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SECTION B

QUESTION 6

Marks

(a)	The benefits of brand extension strategy are:	4
	<ul style="list-style-type: none"> - The new café can get instant recognition and faster acceptance/ large market share - It can save the high advertising costs required to build the brand name of the new café. - The image of the parent brand ‘Kelvin’s’ can be enhanced / further strengthened 	
	(2 marks for every relevant benefit with explanation, max 4 marks)	
(b)	The appropriate product and pricing strategies are:	4
	<ul style="list-style-type: none"> - Product <ul style="list-style-type: none"> • Intangibility: Service cannot be seen until customers arrive in the Café to experience it. The Café can show its quality through the tangible cues such as clean floor, food menu with pictures, and well-groomed staff. • Heterogeneity/Variability: Different waiters or waitresses may provide different services. The café should train the staff to provide quality services. - Price <ul style="list-style-type: none"> • Perishability and fluctuating demand: Service cannot be stored and the supply of service is fixed in a certain period of time. It’s difficult to match supply and demand of services. The Café may charge a lower price during non-peak periods to attract more customers. 	
	(2 marks for every relevant strategy with explanation, max 4 marks)	
(c)	Reasons to explain why performance-based pay does not work:	4
	<ul style="list-style-type: none"> - It is difficult to identify specific criteria to measure performance of waiters and waitresses - It discourages waiters and waitresses to work as a team to support each other in solving problems or to increase service productivity - The performance of waiters and waitresses is sometimes dependent on factors out of their control, e.g. manpower planning, number of absentees, food quality, customers’ manner (little relationship between effort and performance) - Rewards that compensate good performance are not large and attractive enough 	
	(2 marks for every relevant reason with explanation, max 4 marks)	
(d)	The hygiene factors and motivators are:	6
	<ul style="list-style-type: none"> - The hygiene factors are: <ul style="list-style-type: none"> • Comfortable and safe work environment, e.g. to improve the environment of their rest room • Flexible working hours • Good compensation package • Constructive relationship among peer colleagues - The motivating factors are: <ul style="list-style-type: none"> • To give more autonomy to waiters and waitresses in daily work • To recognize employees with outstanding performance in formal occasions • To promote employees with outstanding performance to senior grade • To allow employees to participate in the design of their responsibilities • To provide training or offer advanced skills in café relating work 	
	(1.5 marks for every factor with explanation, max 6 marks)	
		18 marks

QUESTION 7			Marks																						
(a)	The ratios are:		3																						
	<table border="1"> <thead> <tr> <th colspan="2">Types of ratios</th> <th>2015</th> <th>2016</th> </tr> </thead> <tbody> <tr> <td>A) Liquidity ratios</td> <td>Current ratio</td> <td>2.66 :1</td> <td>0.65 :1</td> </tr> <tr> <td>B) Activity ratios</td> <td>Total asset turnover</td> <td>1.71 times</td> <td>1.51 times</td> </tr> <tr> <td rowspan="2">C) Solvency ratios</td> <td>Gearing ratio</td> <td>48.83%</td> <td>57.14%</td> </tr> <tr> <td>Debt ratio</td> <td>55.15%</td> <td>66.67%</td> </tr> <tr> <td>D) Profitability ratios</td> <td>Net profit margin</td> <td>4.72%</td> <td>1.61%</td> </tr> </tbody> </table>	Types of ratios		2015	2016	A) Liquidity ratios	Current ratio	2.66 :1	0.65 :1	B) Activity ratios	Total asset turnover	1.71 times	1.51 times	C) Solvency ratios	Gearing ratio	48.83%	57.14%	Debt ratio	55.15%	66.67%	D) Profitability ratios	Net profit margin	4.72%	1.61%	
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	(1 mark for every relevant ratio with accurate calculation, max 3 marks)																								
(b)	The problems of Wong’s Yunnan Rice Noodles are worsening in:		3																						
	<ul style="list-style-type: none"> - Liquidity problem (0.65<1) - Poor utilization of assets in generating sales (decrease from 1.71 to1.51) - Too heavy debt burden makes it difficult to raise additional funds (heavy interest burden) that (gearing ratio from 48.83% to 57.14%) - Poor profitability (decrease from 4.72% to 1.61%) 																								
	(1 mark for every relevant problem with explanation, max 3 marks)																								
(c)	Possible reasons to take over Wong’s Yunnan Rice Noodles:		4																						
	<ul style="list-style-type: none"> - Diversification of the business of Chika Group / risk diversification - Fast expansion in Hong Kong and mainland China markets - To understand the business model of Wong’s and their success factors - To have synergy effect in the operations 																								
	(2 marks for every relevant reason with explanation, max 4 marks)																								
(d)	Possible problems arising from insufficient working capital:		4																						
	<ul style="list-style-type: none"> - Unable to repay short-term debts - Interruption of day-to-day operations of the company as there are insufficient cash and stocks - Unable to exploit profitable opportunities in the market 																								
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(e)	Marketing strategies to enhance customer loyalty:		4																						
	<ul style="list-style-type: none"> - Creating strong customer bonds: <ul style="list-style-type: none"> Frequency marketing program : to reward customers who buy frequently from Wong’s, e.g. points will be given according to the amount spent in each purchase and the accumulation of points can be used to redeem food Club marketing program : to offer members special benefits and create member communities, e.g. members may enjoy food discount or birthday treats Long-term contract : prepayment to enjoy special food price in future consumption - Add-on services e.g. provide a mobile app for customers to reserve a table and pre-order their meals - Effective handling of customers’ requests and complaints e.g. customer service hotline is available to deal with customers’ enquiries and complaints - Effective communication with customers e.g. via Facebook and other social media 																								
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SECTION C

Answer **ALL** questions in this section.

8.		Marks
(a)	<p>Risk management Strategies for banks granting housing loans :</p> <ul style="list-style-type: none"> ● Risk avoidance- the elimination of the risk of loss. e.g. not grant housing loans to residents without regular sufficient income . ● Risks assumption- the bank bear the risk of loss. e.g. The bank set aside a fund to bear the bad debt loss in housing mortgage. ● Risk reduction- reduce the risk of loss. e.g. Require customers pledge the house / flat to bank in the application of mortgage loan. / <i>more in-depth assets and income investigation/ credit rating checking / guarantor</i> for borrowers ● Risk Transfer- Transfer the risks of loss to insurance companies. e.g. Bad debts insurance <p>(2 marks for each point with relevant elaboration, max. 8 marks)</p>	8
(b)	<p>Differences between local buyers and mainland buyers in buying decision-making process :</p> <ul style="list-style-type: none"> ● Need recognition- Local buyers mostly recognize the importance of housing needs (especially for their life event of residential housing). Mainland investors are more concern on investment. ● Information Search-Sufficient time for local buyers in information search and familiar to residential property advertisement. Mostly the mainland investors just depend on property agents / developers’ recommendations. ● Evaluation of alternatives- Evaluation time is long and due to expensive pricing of housing for local buyers. But the evaluation is quick when the mainland investors have prior detail property information provided by property agents / developers. ● Purchase decision-Price and location are more important for local buyers, while the expected profit margin and location are very crucial to mainland buyers / investors. (**Evaluation of alternatives and purchase decision combined) ● Post-purchase behaviour-Less post-purchase re-evaluation and small impact on residents (usually buy once for all), while more post-purchase revaluation and big impact on mainland buyers /investors as repeat patronage in future. <p>(3 marks for each point with relevant comparison and application, max. 12 marks)</p>	12
		20

9.		Marks															
(a)	<ul style="list-style-type: none"> ● 1st: Identifying and formulating clear and measurable performance standards and goals: e.g. sales target for staff / salespersons ● 2nd: Measuring performance and monitoring goal achievement e.g. managers review the sales figures/ self-evaluation reports of from staff / salespersons ● 3rd: Providing feedback and coaching on appraisal e.g. if a staff / salesperson cannot reach the sales target, the manager may provide suggestions on future improvement ● 4th: Making HRM decisions based on performance appraisal (Initiating corrective action if necessary) e.g. give higher level of bonus to employees whose performance exceeds the performance standard/ give training to employees whose performance fell below the performance standard <p style="text-align: center;">(2 marks for relevant point with application of examples, max 8 marks)</p>	8															
(b)	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 15%;"></th> <th style="width: 40%;">Overseas wholesale agents</th> <th style="width: 45%;">Local self-owned retail chains</th> </tr> </thead> <tbody> <tr> <td>Product</td> <td> <ul style="list-style-type: none"> - Extra protection on packaging for delivery purpose/ bottle pack of larger quantity - Pre-sale/After-sale services are more critical e.g. delivery services and technical support - More tailor-made products on request from the wholesale agents e.g. zero-fat dairy products sold in Europe </td> <td> <ul style="list-style-type: none"> - Packaging of smaller size to suit personal consumption and convenience - Product exchange is only available on flawed products within a limited period - More standardized products for retail customers </td> </tr> <tr> <td>Pricing</td> <td> <ul style="list-style-type: none"> - Competitive bidding and negotiation - Bulk discounts </td> <td> <ul style="list-style-type: none"> - List price at retail shops - Promotional discounts irregularly </td> </tr> <tr> <td>Promotion</td> <td> <ul style="list-style-type: none"> - Personal selling is more important; Promotion to the agents by own sales force e.g. visiting the agents and issuing product samples for trial </td> <td> <ul style="list-style-type: none"> - Mass advertising is more important; Promotion strategies suitable for scattered customers, e.g. TV and magazine advertising, in which the target audiences are general households </td> </tr> <tr> <td>Place</td> <td> <ul style="list-style-type: none"> - Direct channel by own sales force to overseas wholesale agents.(selective distribution) </td> <td> <ul style="list-style-type: none"> - Direct channel through local owned retail outlets (intensive distribution) </td> </tr> </tbody> </table> <p style="text-align: center;">(3 marks for each point with relevant comparison and application, max. 12 marks)</p>		Overseas wholesale agents	Local self-owned retail chains	Product	<ul style="list-style-type: none"> - Extra protection on packaging for delivery purpose/ bottle pack of larger quantity - Pre-sale/After-sale services are more critical e.g. delivery services and technical support - More tailor-made products on request from the wholesale agents e.g. zero-fat dairy products sold in Europe 	<ul style="list-style-type: none"> - Packaging of smaller size to suit personal consumption and convenience - Product exchange is only available on flawed products within a limited period - More standardized products for retail customers 	Pricing	<ul style="list-style-type: none"> - Competitive bidding and negotiation - Bulk discounts 	<ul style="list-style-type: none"> - List price at retail shops - Promotional discounts irregularly 	Promotion	<ul style="list-style-type: none"> - Personal selling is more important; Promotion to the agents by own sales force e.g. visiting the agents and issuing product samples for trial 	<ul style="list-style-type: none"> - Mass advertising is more important; Promotion strategies suitable for scattered customers, e.g. TV and magazine advertising, in which the target audiences are general households 	Place	<ul style="list-style-type: none"> - Direct channel by own sales force to overseas wholesale agents.(selective distribution) 	<ul style="list-style-type: none"> - Direct channel through local owned retail outlets (intensive distribution) 	12
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End of Answer