

HONG KONG INSTITUTE of CERTIFIED PUBLIC ACCOUNTANTS

AND

HONG KONG ASSOCIATION FOR BUSINESS EDUCATION

**HONG KONG DIPLOMA OF SECONDARY EDUCATION
EXAMINATION 2019 / 20**

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

**PAPER 2B
BUSINESS MANAGEMENT MODULE**

Marking Scheme

SECTION A

Answer ALL questions in this section.

1	<p>With respect to two management functions to explain how budgets help enterprise to achieve its objectives:</p> <ul style="list-style-type: none"> ● Planning- force management to plan for future ● Organizing- encourage internal communication within the organization ● Leading- co-ordinate the operation of individual departments into the overall objectives of the enterprise ● Control- provide a benchmark for evaluating actual performance / assist in the clarification of areas of responsibility throughout the business <p>(Any 2 management functions with relevant explanation to budgeting x 2m@=4m)</p>	4
2	<p>Theory X managers will view employees as dislike work and prefer to be led. They assume employees are the</p> <ul style="list-style-type: none"> ● people inherently dislike work and assume they will evade work if possible, so Theory X managers try to control, direct and threaten employees to make them work → employees have no authority to contribute new ideas ● people have little ambition, resist to changes and try to avoid responsibility, so Theory X managers spell out responsibilities carefully, set goals without employees’ participation and require them to follow detailed instructions → no creative inputs from employees ● people prefer to be led, e.g. so Theory X managers will supervise employees closely and will punish them if they are deviate from established rules → employees dare not contribute new ideas to avoid being punished <p>(2 points with relevant elaboration x 2m@=4m)</p>	4
3	<p>Risk management strategies :</p> <ul style="list-style-type: none"> ● risk assumption - e.g. set up a fund to meet the financial burden of loss caused by accidents. ● risk reduction - e.g. better training of pilots and regular check & maintenance of planes. ● risk transfer – e.g. taking out insurance on employees or victims’ compensation in plane accidents . <p>(2 strategies with examples x 2m@=4m)</p>	4

4	<p>(a) Current Ratio=Current assets/Current liabilities=980,000/700,000=1.40 Quick Ratio =Liquid assets/Current liabilities=420,000/700,000=0.60</p> <p>(b) Revised current ratio=1030,000/750,000=1.37 Revised quick ratio=470,000/750,000=0.63</p> <p>(c) Two ways to increase cash flow</p> <ul style="list-style-type: none"> ● Discount accounts receivable/debtors to financial institutions ● Delay/defer payment to creditors ● Sales promotion to speed up the selling of stocks <p style="text-align: center;">(3 parts with correct calculation and explanation x 2@=6 marks)</p>	<p>2</p> <p>2</p> <p>2</p>					
5	<p>The reasons why the tart chain cannot prevent its product life cycle from entering into the decline stage :</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 5px;">Reasons (Limitations)</th> </tr> </thead> <tbody> <tr> <td style="padding: 5px;"> <ul style="list-style-type: none"> ● Because of intense competition, price should be reduced in order to <u>compete</u> and attract the price conscious segment and retain the customers. However, the chain could not reduce its price by a large extent due to the high cost of imported materials that help maintain quality standard. </td> </tr> <tr> <td style="padding: 5px;"> <ul style="list-style-type: none"> ● More promotion is done in order to create product differentiation and loyalty. Sales promotion should be adopted to encourage brand switching. However, competition in the Japanese dessert market is fierce. Promotion effort, especially sales promotion, may not be effective to enhance customer loyalty. </td> </tr> <tr> <td style="padding: 5px;"> <ul style="list-style-type: none"> ● Sellers should add features and modify the product in order to compete in market and differentiate the product from competition. However, the chain has only one product, the cheese tart, to be sold. Modification is not acceptable as standardized quality of cheese tarts should be made. It is also hard for the Japanese headquarter to manage too many versions of products sold in overseas outlets. </td> </tr> <tr> <td style="padding: 5px;"> <ul style="list-style-type: none"> ● New channels are added to ensure sufficient market coverage compared with its competitors, sellers should continue using intensive distribution. Cheese tarts are not necessities to customers. The target segment size is very small so more intensive distribution of outlets is not required. </td> </tr> </tbody> </table> <p style="text-align: center;">(Any 3 reasons with relevant explanation x 2@=6m)</p>	Reasons (Limitations)	<ul style="list-style-type: none"> ● Because of intense competition, price should be reduced in order to <u>compete</u> and attract the price conscious segment and retain the customers. However, the chain could not reduce its price by a large extent due to the high cost of imported materials that help maintain quality standard. 	<ul style="list-style-type: none"> ● More promotion is done in order to create product differentiation and loyalty. Sales promotion should be adopted to encourage brand switching. However, competition in the Japanese dessert market is fierce. Promotion effort, especially sales promotion, may not be effective to enhance customer loyalty. 	<ul style="list-style-type: none"> ● Sellers should add features and modify the product in order to compete in market and differentiate the product from competition. However, the chain has only one product, the cheese tart, to be sold. Modification is not acceptable as standardized quality of cheese tarts should be made. It is also hard for the Japanese headquarter to manage too many versions of products sold in overseas outlets. 	<ul style="list-style-type: none"> ● New channels are added to ensure sufficient market coverage compared with its competitors, sellers should continue using intensive distribution. Cheese tarts are not necessities to customers. The target segment size is very small so more intensive distribution of outlets is not required. 	6
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SECTION B

QUESTION 6

Marks

(a)	Factors to explain why bubble milk tea is popular in Hong Kong:	4
	<p>Socio-cultural factors</p> <ul style="list-style-type: none"> ● Culture: most people living in Hong Kong are Chinese and drinking tea is Chinese traditional culture ● Direct reference group: people can be influenced by their peers to choose bubble milk tea in the decision of beverage ● Indirect reference group e.g. opinion leaders. Consumers can be influenced by the recommendations given by opinion leaders <p>Psychological factors</p> <ul style="list-style-type: none"> ● Personality and self-concept : open-minded customers are willing to seek variety of bubble tea. ● Perception : some people perceive that drinking bubble tea is trendy ● Learning : people learn to drink bubble tea from gaining new knowledge or accumulation of experiences. 	
	(2 marks for every relevant factor from Socio-cultural or psychological factors with explanation)	
(b)	Drawbacks of the data collection method to collect tea market information proposed by Mr. Poon:	4
	<ul style="list-style-type: none"> ● There is a sample bias because only the company’s employees can be selected to join the focus group ● The company’s employees may not be bubble milk tea drinkers ● The information collected from one-time focus group is not comprehensive 	
	(2 marks for every drawback with explanation, max 4 marks)	
(c)	The components of the 5Cs of the credit standard:	3
	<ul style="list-style-type: none"> ● Character: probability that a customer will try to honour obligations ● Capacity: subjective judgement of customer's ability to pay, e.g. past business performance record, observation of plant, etc. ● Capital: general financial position of firm indicated by financial ratio analysis ● Collateral: assets offered by customer as pledge for security of credit extended ● Conditions: impact of general economic trends on firm or special developments in economy affecting ability to meet obligations 	
	(1 mark for every relevant credit standard with explanation, max 3 marks)	
	The negative impacts of adopting a lenient credit policy to new customers:	1
	<ul style="list-style-type: none"> ● To relax the credit policy will result in more bad debts and more capital will be tied up, resulting in less working capital 	
(d)	A cash conversion cycle refers to:	2
	<ul style="list-style-type: none"> ● Cash conversion cycle refers to the length of time from paying cash to buy goods (inventory) to the collection of cash from selling goods (inventory). 	
	Impact on the cash conversion cycle and liquidity if Red Mountain Coffee sells to large fast food	2
	<ul style="list-style-type: none"> ● It takes more time to collect receivables from customers and cash conversion cycle will be longer ● The company will become less liquid as receivables amount increase and less cash on hand 	
(e)	$EOQ = \sqrt{\frac{2DS}{H}}$ $= \sqrt{\frac{2(248,000)(165)}{(23)(0.1)}} = 5,965.1 \text{ kg}$ <ul style="list-style-type: none"> ● The optimal order quantity under EOQ is 5,965 kg 	2
18 marks		

QUESTION 7

Marks

(a)	The market segmentation method suggested by David:	2
	<ul style="list-style-type: none"> ● The company combines the methods of demographic segmentation by income and psychographic segmentation by lifestyle 	
(b)	The pricing strategy for the products in the proposed flagship store:	2
	<ul style="list-style-type: none"> ● Skimming pricing: they set higher prices for the products because of value-added features like prime business location, exclusive and unique design items / Skimming pricing for products because of customers’ perceived value of premium quality household products or distinguish its high quality products (exclusive and unique design product) different from competitors. 	
	The advantage and disadvantage of this pricing strategy:	2
	<ul style="list-style-type: none"> ● Advantage: Skimming pricing offers a superior profit margin to economy-priced lines, and this means greater profit for the same volume / quick payback period. ● Disadvantage: it is not easy to set appropriate price for products as it is difficult to assess customers’ perceived value or how much they are willing to pay for the difference from competitors / difficult to grasp high market share. 	
(c)	Drawbacks of recruitment through employee referral:	4
	<ul style="list-style-type: none"> ● Lose chance to find the best qualified person from outside ● No new ideas brought to the company ● limited selection choice affecting the possible quality of staff ● forming informal groups which might not in support of company policy/inducing group conflicts 	
	(2 marks for every relevant drawback with explanation, max 4 marks)	
(d)	Reasons to support Mary’s opinion about David’s remuneration method:	4
	<ul style="list-style-type: none"> ● Sales performance of a store depends on many factors, for example, store location, purchasing power of customer nearby etc. ● There is no material change in remuneration as it does not address to the problem of sales commission rate ● The bonus reward is hard to obtain ● The punishment is severe and demotivating 	
	(2 marks for every relevant reason with explanation, max 4 marks)	
(e)	Describe the formal steps in conducting performance appraisal::	4
	<ul style="list-style-type: none"> ● set the aim of appraisal and performance standards and communicate with the appraiser and the appraisee ● measure and record staff performance, make comparisons between expected and actual performance ● provide feedback and listen to staff responses ● make human resources decisions : training and development, promotion, termination, etc. 	
	(1 mark for each step, max 4 marks)	
		18 marks

SECTION C

8.			Marks																		
(a)	<p>From the customer relationship management perspective, factors affecting customer loyalty towards e-banking service :</p> <ul style="list-style-type: none"> ● Customer satisfaction - It refers to how far a customer perceives the e-banking service can match his / her expectation. e.g. time-saving and speedy on-line banking transaction ● Effective communication with customers – It refers to a bank’s ability to provide timely and trustworthy information to customers on e-banking. e.g. personalized services by bank ● Handling of customer complaints- The key is whether the bank can effectively handle the complaints to restore customer confidence and loyalty. ● Creating of strong customer bonds – It refers to a bank should focus on forming stronger bonds or connections with customers. e.g. VIP membership program or Points redemption in credit card ● Perceived quality of services - the benefit components of perceived value include intrinsic attributes (e.g. how a speedy e-banking transaction makes one feel), extrinsic attributes (e.g. reputation of the product/service), perceived quality and other relevant high level abstractions. The ‘sacrifice’ components of perceived value include: monetary prices (bank service charges) and non-monetary costs (time, energy, effort). <p>(2 marks for each point with relevant explanation , max 8 marks)</p>		8																		
(b)	<p>How the human resources functions be applicable to the bank tellers and branch managers in the banking industry:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th data-bbox="164 1025 360 1059">HR function</th> <th data-bbox="360 1025 839 1059">Bank tellers</th> <th data-bbox="839 1025 1318 1059">Branch Managers</th> </tr> </thead> <tbody> <tr> <td data-bbox="164 1059 360 1216">Manpower Planning</td> <td data-bbox="360 1059 839 1216"> <ul style="list-style-type: none"> ● Less demand of bank tellers due to banking transformation(popularity of e-banking) </td> <td data-bbox="839 1059 1318 1216"> <ul style="list-style-type: none"> ● More demand of professional bank talents with multiple skills e.g. managerial and financial skills, design and develop new e-banking services </td> </tr> <tr> <td data-bbox="164 1216 360 1440">Staffing (recruitment and selection)</td> <td data-bbox="360 1216 839 1440"> <ul style="list-style-type: none"> ● Secondary education level ● Recruitment with simple selection process ● Recruitment criteria related to communication skills, efficiency of work, etc. </td> <td data-bbox="839 1216 1318 1440"> <ul style="list-style-type: none"> ● Tertiary education level with business/financial degree preferably ● Recruitment with more selection process ● Recruitment criteria related to the ability on strategic planning </td> </tr> <tr> <td data-bbox="164 1440 360 1664">Performance appraisal</td> <td data-bbox="360 1440 839 1664"> <ul style="list-style-type: none"> ● Simple performance standards to be set for evaluation e.g. friendliness, responsiveness and attitude towards customers ● Usually appraised by one supervisor only </td> <td data-bbox="839 1440 1318 1664"> <ul style="list-style-type: none"> ● More performance standards to be set for evaluation e.g. responsiveness and management skills in leading branch staff and performance ● May be appraised by more level of senior staff </td> </tr> <tr> <td data-bbox="164 1664 360 1798">Reward management (compensation and benefit)</td> <td data-bbox="360 1664 839 1798"> <ul style="list-style-type: none"> ● Basic monthly salary and tellers may earn commission for promoting services to customers successfully </td> <td data-bbox="839 1664 1318 1798"> <ul style="list-style-type: none"> ● Basic monthly salary and bonus offered to managers at branch with superior business performance </td> </tr> <tr> <td data-bbox="164 1798 360 1989">Training & development</td> <td data-bbox="360 1798 839 1989"> <ul style="list-style-type: none"> ● Regular periodic training and On-the-job training (coaching) ● More on technical skills (e.g. update financial product knowledge) </td> <td data-bbox="839 1798 1318 1989"> <ul style="list-style-type: none"> ● Computer-based interactive programmed training for banker examinations ● More on interpersonal skills (e.g. leadership training program) </td> </tr> </tbody> </table> <p>(3 marks for each point with relevant comparison and application, max. 12 marks)</p>		HR function	Bank tellers	Branch Managers	Manpower Planning	<ul style="list-style-type: none"> ● Less demand of bank tellers due to banking transformation(popularity of e-banking) 	<ul style="list-style-type: none"> ● More demand of professional bank talents with multiple skills e.g. managerial and financial skills, design and develop new e-banking services 	Staffing (recruitment and selection)	<ul style="list-style-type: none"> ● Secondary education level ● Recruitment with simple selection process ● Recruitment criteria related to communication skills, efficiency of work, etc. 	<ul style="list-style-type: none"> ● Tertiary education level with business/financial degree preferably ● Recruitment with more selection process ● Recruitment criteria related to the ability on strategic planning 	Performance appraisal	<ul style="list-style-type: none"> ● Simple performance standards to be set for evaluation e.g. friendliness, responsiveness and attitude towards customers ● Usually appraised by one supervisor only 	<ul style="list-style-type: none"> ● More performance standards to be set for evaluation e.g. responsiveness and management skills in leading branch staff and performance ● May be appraised by more level of senior staff 	Reward management (compensation and benefit)	<ul style="list-style-type: none"> ● Basic monthly salary and tellers may earn commission for promoting services to customers successfully 	<ul style="list-style-type: none"> ● Basic monthly salary and bonus offered to managers at branch with superior business performance 	Training & development	<ul style="list-style-type: none"> ● Regular periodic training and On-the-job training (coaching) ● More on technical skills (e.g. update financial product knowledge) 	<ul style="list-style-type: none"> ● Computer-based interactive programmed training for banker examinations ● More on interpersonal skills (e.g. leadership training program) 	12
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9.		Marks																		
(a)	<p>Major decisions and functions of financial management to enable the growth and sustainable development of a worldwide hotel group in the hotel industry :</p> <ul style="list-style-type: none"> ● Investment Decision - e.g. where to invest Where to build hotels to keep its goodwill ● Financial Decision - e.g. how to obtain sufficient capital How to raise more capital for the hotel group by equity or debt financing ● Dividend Decision – e.g. how much to be pay out dividends and in what form Distribute dividend and keep retained earning for further and sustainable development ● Working Capital Decision – e.g. how to manage its working capital How to make sure that it has sufficient cash to pay for current liabilities of the hotel group <p>(relevant explanation and examples on the hotel group 2@x4 =8m)</p>	8																		
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End of Answer