

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**

Time allowed: 2 hours 15 minutes

This paper must be answered in English

INSTRUCTIONS:

1. There are three sections in this paper: Section A (24 marks), Section B (36 marks) and Section C (20 marks).
2. All questions in Section A and B are compulsory. You are required to answer one of the two questions in Section C.
3. Show **all** your workings.

SECTION A (24 marks)

Answer **ALL** questions in this section.

1. With respect to any two management functions, explain how budgets help an enterprise to achieve its objectives. (4 marks)
2. With reference to McGregor's Theory X and Theory Y, explain two reasons why employees who work for X-type managers are generally less creative. (4 marks)
3. Explain two types of risk management strategies which an airline company can adopt to manage the risk of its planes involved in accidents. (4 marks)

4. The working capital of a firm has deteriorated in recent years and now stands as follows:

Current Assets	HK\$	Current Liabilities	HK\$
Inventory	560,000	Account payables	490,000
Account receivables	350,000	Bank Loan	210,000
Cash	70,000		
	980,000		700,000

- (a) Compute the current and quick ratios of the firm. (to 2 decimal places) (2 marks)
 - (b) A further short-term bank loan of HK\$ 50,000 is under negotiation. Assuming the loan is obtained, calculate the revised current and quick ratios. (to 2 decimal places) (2 marks)
 - (c) Apart from bank loans, suggest two ways to increase cash flow of the firm. (2 marks)
5. The market of a Japanese cheese tart chain that opened in Hong Kong several years ago has been shrinking recently.

Explain three reasons why the chain cannot prevent its product life cycle from entering into the decline stage so quickly. (6 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

6. Red Mountain Coffee, a small-scale coffee bean wholesaler in Hong Kong, is a business co-founded by Mr. Wong and Mr. Poon who are coffee lovers. They started the business five years ago. As coffee experts, they are able to seek and supply high quality coffee beans to local independent coffee houses at a reasonable price. However, they observe that some customers have closed their businesses in recent years.

In a monthly meeting, Mr. Wong said, “Hong Kong beverage market is undergoing a structural change. We observe that more and more Taiwan and China bubble milk tea shops have been opened in different places. Some of our customers have followed this market trend and turned their businesses into bubble milk tea shops. Our coffee bean sales thus experienced a drastic drop.”

Mr. Poon replied, “Why don’t we consider entering the tea leaf market to follow this trend? We can diversify our wholesale business into both coffee bean and tea leaf. Though we are not familiar with the tea leaf market and related customer preference, we can arrange one focus group interview and invite five employees to participate so as to understand the market better. As a newcomer, we can attract bubble milk tea shops to buy our products by offering them very lenient credit policy.”

Mr. Wong responded, “Your way of collecting data might have some drawbacks. Besides, I suggest following the 5Cs of credit standard to evaluate our new customers credit worthiness. Your suggestion regarding the credit policy may also affect our profitability adversely.”

Mr. Poon said, “If the business diversification strategy does not work, we may try to expand our customer base by selling the coffee beans to large fast food chains. The profit margin will be very low for sure but they mostly purchase in bulk, so we can still make a profit. And we don’t need to worry about the problem of bad debts since they are large and well-known enterprises.”

Mr. Wong said, “Large fast food chains always ask for a very long credit period. This will greatly affect our cash conversion cycle. Then we need to improve our inventory cost control. Inventory cost will probably decrease if we adopt simple Economic Order Quantity (EOQ) model. According to our records, the annual demand for coffee beans is 248,000 kg and the purchase price is \$23 per kg. The carrying costs per year are estimated at 10% of the purchase price, and the costs of placing an order are \$165. We may find out the most optimal order quantity.”

- (a) According to the factors affecting customer decision, suggest any two factors to explain why bubble milk tea is popular in Hong Kong. (4 marks)
- (b) Suggest two drawbacks of the data collection method to collect information of the tea leaf market proposed by Mr Poon. (4 marks)
- (c) With reference to any three components of the 5Cs of credit standard, explain the negative impacts of adopting a lenient credit policy to new customers. (4 marks)
- (d) What is a cash conversion cycle ? Describe the impact on the cash conversion cycle and liquidity to Red Mountain Coffee if it sells coffee beans to large fast food chains. (4 marks)
- (e) Calculate the optimal order quantity for Red Mountain Coffee under the simple EOQ model. (2 marks)

(Total: 18 marks)

7. Comfort Home is a Hong Kong leading houseware retailer providing a full range of houseware products at competitive prices. It has 80 stores and employs more than 600 staff.

Simon is the CEO of the company. During a meeting, he said, “The sales of our company have dropped significantly. Many of our customers have changed to buy household products online. Does anyone have suggestions to solve this problem?”

David, the Marketing Manager, said, “The main reason for people to buy household products online is because of the attractive low price. Instead of engaging in e-commerce with a rather low profit margin, we may consider entering another battlefield of selling higher price household products of premium quality. We can open a flagship store in Tsimshatsui selling exclusive and unique design products. Only high-end household products are available in this store. We may target at higher income customers who demand quality products and prestigious lifestyles.”

Mary, the Human Resources Manager, did not agree, “Our company’s merchandisers only have connections with suppliers of lower quality goods. Sourcing suppliers of high-end products will be a big challenge for them. Besides, the experience and knowledge requirements for the flagship store manager and salespeople are really demanding and our existing staff are not competent enough. We have to recruit new merchandisers, store manager and salespeople from outside. In view of the low unemployment rate in Hong Kong, it is difficult to hire staff of high calibre.”

She continued, “Another reason for the sales drop is due to labour shortage in our company. Many store managers and salespeople were not satisfied with the sales commission rate and thus quitted. We have to find ways to retain our existing staff.”

David responded, “It is profitable to run a flagship store as we can set higher prices for the products. I understand the difficulties of external recruitment. We can seek qualified staff through employee referral. Our remuneration should be attractive enough to entice talents from outside and retain our existing staff. We can evaluate the sales performance of each shop. For the top three stores, each manager and salesperson will be rewarded a bonus equivalent to their one-month salaries. In contrast, for each staff of the last three shops with the poorest performance, their salaries will be cut by half. This method is fair enough and all staff will be motivated to work harder.”

Mary said, “I have reservations about your proposed recruitment method and employee remuneration. And the shop sales amount should not be the only indicator for evaluating employees’ performance. We have to follow the formal steps in performance appraisal.”

- (a) Explain the market segmentation method suggested by David. (2 marks)
- (b) What is the pricing strategy for the products to be sold in the proposed flagship store? Suggest one advantage and one disadvantage of this pricing strategy. (4 marks)
- (c) Suggest two drawbacks of the recruitment method proposed by David. (4 marks)
- (d) Give two reasons to support Mary’s opinion about David’s remuneration method. (4 marks)
- (e) Describe the formal steps in conducting performance appraisal. (4 marks)

(Total: 18 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

8. While the employment of bank tellers is expected to decline due to the popularity of electronic banking (e-banking) technology, their job requirements are even more complicated nowadays. Apart from processing deposits and withdrawals, tellers should also recommend personalized banking services to customers to enhance their loyalty.

(a) From the customer relationship management perspective, explain the major factors affecting customer loyalty in using e-banking services. (8 marks)

(b) Illustrate the differences on how the human resources functions be applicable to bank tellers and branch managers in the banking industry. (12 marks)

(Total: 20 marks)

9. The hotel industry is highly competitive globally. Every successful venture needs solid financial management to enable its growth and sustainable development.

(a) With reference to the role of financial management, identify and explain the major decisions and functions to enable the growth and sustainable development of a worldwide hotel group in the industry. (8 marks)

(b) In terms of consumer behaviour, compare and contrast the consumer decision-making process between family users and business users in hotel services. (12 marks)

(Total: 20 marks)

END OF PAPER