

2013

ECON SCHOOL OF THE HONG KONG ECONOMIC TIMES  
DIPLOMA OF SECONDARY EDUCATION MOCK EXAMINATION

# **BUSINESS, ACCOUNTING AND FINANCIAL STUDIES**

## **PAPER 2B**

### **BUSINESS MANAGEMENT MODULE**

#### **Mock Paper**

Time allowed: 2 Hour 30 Minutes

This paper must be answered in English.

#### **INSTRUCTIONS**

1. This paper consists of THREE sections, A, B and C. Section A carries 30 marks, Section B carries 50 marks and Section C carries 20 marks.
2. Answer ALL questions in Section A and B. You only have to answer one of the two questions in Section C.
3. Please view [www.econschool.com/mock1213](http://www.econschool.com/mock1213) for suggested answer.



Econschool Mock Exam Suggested Solution  
Business, Accounting and Financial Studies Paper 2B

Section A

1.

Factors:

- Customer satisfaction: it calculates the difference between the actual performance of the products or services and the expected performance by customers. The higher the customer satisfaction to the products or services is, the higher the customer loyalty.
- Effectiveness of communicating with customers: it refers to whether the product information provided by the enterprise is timely and accurate, so as to assist the customers in decisions making. The more effective the communication with customers is, the higher the customer loyalty.
- Effectiveness of handling customers' complaints: it measures whether the enterprise can respond to the complaints promptly and appropriately. The more effective the enterprise handling customers' complaints are, the higher the customer loyalty.

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

2.

Methods:

- Product differentiation: produce phones with unique design and advanced technology, highlighting the advantages of the products over its competitors.
- Service differentiation: provide maintenance services, which are more professional and convenient than its competitors'.
- Channel differentiation: distribute products to the target customers through methods different from other producers, e.g. online shops, specialty stores, etc.
- Image differentiation: highlight its products through established brand or corporate image.

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

3.

Reasons:

- Since purchases and sales may not occur at the same time, the store has to keep some products in order to satisfy the expected demand, so that customers can purchase easily.
- Holding inventory more than expected demand can avoid shortage due to instantaneous increase in demand or delay in delivery.
- The snacks shop expects the wholesale price will increase. It will purchase inventory more than the normal level, in order to save cost.
- Discount will be offered in bulk purchase, the shop can enjoy economies of scale.

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

4.

Disadvantages:

- Difficult to adapt: External job applicants may find it more difficult to adjust to the company's operation and culture than internal candidates.
- Lower morale: Filling job vacancies with external candidates may reduce the promotion opportunities of current employees, and thus lowering their morale.

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

5.

Performance management is the activities carried out by managers to monitor employees' performance (1 mark), such as measuring, evaluating and remunerating employees' performance, etc (1 mark).

The purposes of performance management:

- Evaluating working performance: Managers can evaluate employees' performance according to the expected target, and make decision based on the evaluation result, so as to arrange tasks and allocate human resources efficiently.
- Notify workers of the enterprise's objectives: The performance standard is established according to the enterprise's objectives. This enables workers to understand the enterprise's objectives that they should strive towards.
- Developing workers' ability: Performance management enables managers to understand the strengths and weaknesses of the workers. This assists them to provide suitable training and guidance, so as to enhance workers' abilities.

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

6.

Limitations:

- Difficult to analyse large companies: It is more difficult to analyse large companies using ratio analysis because large companies have many subsidiaries operating in different industries. So it is difficult to find comparable statistics.
- Different accounting standards: Different accounting standards may be in use in different companies. This affects the result of the calculation of financial ratio, making different companies' financial ratio incomparable.
- Modified statistics: Financial statistics may be modified by companies, making it better than its actual conditions.

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

## Section B

7.

(a) (i)

Maslow's hierarchy of needs theory:

- Employees did not have sufficient rest under excessively long working hours, their physiological needs cannot be satisfied.
- As the monthly average number of traffic accidents increases, the bus captains may feel threatened or in danger, and thus their safety and security needs cannot be satisfied.

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

(ii)

Adam's equity theory:

Existing employees observe that their efforts on work (input) are the same as the new employees, while their salaries (output) are lower than the latter (1 mark). They may find that their input-output ratio is higher than the new employees, so they would be dissatisfied with such unfair arrangement (1 mark).

(b)

Advantages:

- Ensuring safety: Appropriate driving training equips bus captains with correct driving skills and road knowledge, avoiding them from having traffic accident, and ensuring safety of their own as well as the passengers.
- Reducing employees' dissatisfaction: Training promotes the personal development of bus captains. Trained bus captains will be grateful to the nurturance of the company. This reduces disagreements and makes the relationship between the management and bus captains more harmonic.
- Improving service quality: Training can improve the serving attitude of bus captains and enhance customer satisfaction.

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

(c) (i)

Strategies:

- Risk transfer: Purchase an oil futures contract to hedge against the risk of the increase in oil price, and transfer the risk to the seller of the contract.
- Risk avoidance: Use electric buses instead of fuel buses, so as to avoid the risk of the increase in oil price.

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



(ii)

Strategies:

- Risk transfer: Purchase insurance for traffic accidents and transfer the risk to the insurance company.
- Risk avoidance: Provide more training to bus captains so as to reduce the possibility of traffic accidents.

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

(d)

Ratios and measured aspects:

- Rate of return on asset: Measuring the profitability of Dragonbus without considering its financial structure.
- Rate of return on common stock equity: Measuring the return on capital from Dragonbus's ordinary shareholders.
- Rate of return on equity: Measuring the return on capital from all shareholders of Dragonbus

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

8.

(a)

Methods:

- Set the advertising expenses at a particular percentage of the current or estimated sales.
- Follow the advertising budgets of the rivals.

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

(b)

Aspects:

- The feeling to the advertisement of the target audiences.
- Whether the target audiences notice or can think of the advertisement.
- How many main points of the advertisement the target audiences can think of.
- How does the target audience's attitude towards the product change after they watched the advertisement.

(1 mark for each relevant aspect, max. 2 marks)

(c)

Product strategy:

- Provide various types of products to attract more customers; e.g. launching snowy moon cakes in addition to the traditional moon cakes.
- Redesign the packages; e.g. invite popular designers to design the package.
- Use more healthy raw materials to produce traditional cakes.
- Design a new logo for Ming Wah Bakery.

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

Promotion strategy:

- Use promotion methods to build traffic and brand recognition, e.g. coupons, premiums, etc.
- Send press releases to newspaper publishers to build brand awareness.

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

(d)

Extrinsic factors:

- Market characteristics: The bakery must consider the market situation of traditional cakes; for example, if the market of traditional cakes is oligopoly, its pricing will be affected by other bakeries.
- Customers' demand: The bakery must consider customers' demand; if their demand is low, price cannot be too high.
- Competitors' strategies: The bakery must consider the strategies of its competitors, for example, whether the competitors will follow suit if the bakery adjusts its prices.

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

(e) (i)

If Ming Wah Bakery issues shares to the public, the existing shareholders must share the controlling rights of the company with new shareholders, weakening the former's controlling rights of the company.

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

(ii)

Sources of funds:

- Borrow from banks: If the enterprise is able to repay the interest, the enterprise can enjoy all the profits earned solely.
- Use of retained earnings: The use of retained earnings does not incur any problems of interest payment or maturity date.

(3 marks for each relevant source of fund and reason, max. 6 marks)



## Section C

9.

(a)

Possible reasons of the variance of the wage rate:

- Many garment workers move to other industries or get a job overseas. Hence, the unanticipated fall in labour supply will raise the wage rate in the market, and the direct labour cost of the garment factory will rise.
- The new design of clothing requires higher technique. Hence, the garment factory has to hire some experienced workers, whose wage rates should be higher.
- Increase in the number of orders is out of expectation. Hence, the garment workers need to work overtime. If wages of overtime are higher, their average hourly wage will rise.

(4 marks for each relevant reason, max. 8 marks)

(b)

Differences:

	Year-end bonuses	Paid leaves
Incentive effects	- Year-end bonuses are usually paid in terms of cash. It can be linked to the performance of designers. Hence, the motivation effect should be larger.	- Paid leave is a kind of indirect remuneration. Thus, it cannot cause any direct motivation effect. - Paid leave can maintain the designers' physical and mental health. It may inspire their creation.
Financial burden	- Year-end bonuses can be linked to the performance of the garment factory. If the performance of the garment factory is poor, the amount of year-end bonuses can be reduced. The financial burden of the factory is lighter.	- Increase in the paid leaves can benefit all designers. However, the labour supply may not satisfy the garment factory's need. Hence, they need to hire more workers or request them to work overtime, it increases the financial burden indirectly.
Administrative costs	- The garment factory can base on the performance of designer to calculate the year-end bonus.	- Increase in the paid leaves can benefit all designers, but the extra administrative cost in

	However, the management has to evaluate the performance of each designer. It will involve extra administrative cost.	calculating the holiday is lower than that of calculating the bonus payment.
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(4 marks for each relevant comparison, max. 12 marks)

10.

(a)

	Telephone interview	Online survey	Face-to-face interview
Research cost	<b>Low cost:</b> Interviewers only need to stay in office. This enables the researchers to collect lots of data within a short period of time.	<b>Low cost:</b> The browse rate of online survey can be high, and thus, the average production cost is low.	<b>High cost:</b> Interviewers need more training and they have to contact interviewees directly. Hence, it involves longer time and the cost should be higher.
Interviewer bias	<b>Small interviewer bias:</b> There is a set of standard questions for the telephone interview usually. Interviewers only need to ask the interviewees based on the cues, this narrows interviewer bias.	<b>Incur no interviewer bias:</b> Interviewees of online survey can answer the questions on their own. It is not affected by interviewer bias.	<b>Large interviewer bias:</b> Face-to-face interview needs the explanation of the interviewers. The result of the research is affected by interviewer bias.

(6 marks for each relevant aspect, max. 12 marks)

(b)

Content:

- Question and objective of the research: Firstly we need to state the problem that the enterprise faced in the market research report, and point out the assumptions and objectives of the research.
- Methods of research: The market research report should also state the information collected from the research and the methods used in research, e.g. Questionnaire.
- Result of the research: Researchers summarise the information collected from the research, present the result and analyse the advantages and disadvantages towards the enterprise.
- Suggestions: Researchers give suggestions to the enterprise for solving the difficulties faced based on the research.

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

