

South Tuen Mun Government Secondary School  
Business, Accounting and Financial Studies  
Mock Paper #4 (Management Module)

Name: \_\_\_\_\_

Class: \_\_\_\_\_ ( )

**SECTION A**

Answer **ALL** questions in this section.

1. Describe the disadvantages to a company of using sales promotion in its marketing strategies. (4 marks)
  
2. Briefly explain why businesses conduct marketing research more often than they did in the past. (4 marks)
  
3. Many companies buy insurance for their businesses in order to reduce risks. Explain the objectives of risk management. (4 marks)
  
4. Banks have tightened credit policy to curb its operation risk under the impact of global financial tsunami. Suggest four ways to improve cash flow of a medium- or small-sized company having insufficient funds. (6 marks)
  
5. Suggest three ways for a hotel to enhance workplace health and safety. (6 marks)
  
6. Explain why it is difficult to evaluate the performance of R&D (research and development) staff. (6 marks)

7. Harbour Wave City is developed by Kowloon Godown (Holdings) Limited and managed by Harbour Wave City Estates Limited. Harbour Wave City has over 450 shops, including 50 restaurants and two cinemas. The whole complex consists of 4 inter-connected shopping zones including Ocean Strait Building, The Hotel Area Shopping Arcade, Sea Horse Centre and Harbour Centre Gateway Arcade. Each shopping zone has its distinctive features.

Although there is a slight growth in the flow of customers and gross retail sales from rental stores, Harbour Wave City has been experiencing the challenge from the newly-established Square Circle Mall at the Kowloon MTR sites since 2008. The Square Circle Mall has over one million square feet of total shopping areas, subtly themed after the five Chinese elements: Metal, Wood, Water, Fire and Earth, to create a prime shopping location.

Mr. Chan, Director of Kowloon Godown (Holdings) Limited, is satisfied with the sales performance of Harbour Wave City. He points out that there is a distinguished track record of sales performance in Harbour Wave City over the last three years. 90% of its sales come from luxurious Mainland Chinese tourists. At present, China-Hong Kong cross-border bus services have drop-off and pick-up sites at the MTR Kowloon Station. Moreover, the Express Rail Link will commence to run in 2014. Mr. Chan recognizes that Harbour Wave City will gradually lose its advantage even with its proximity to China Ferry Terminal. Because its long-term outlook is not good enough, the company should consider how to attract more high spending tourists from Mainland China to go shopping at the Harbour Wave City.

Miss Lee, Chief Executive Officer of the Harbour Wave City Estates Limited, says in response: "Mr. Chan has correctly highlighted the main point. Our shopping complex could not be objectively compared with the Square Circle Mall. We may need to launch a major renovation for our complex so as to make us more competitive and attract more regular flows of customers. We could then turn Canton Road into an avenue of flagship stores carrying different internationally famous brands. We have already entrusted a well-known accounting firm to launch a \$4 million feasibility study. The survey report suggests that we should invest \$60 million in order to earn an annual extra cash inflow of \$20 million over the next five years. Moreover, in order to upgrade our services, we need to employ Putonghua speaking security staff and young service ambassadors. These will cost another \$1 million each year to our manpower budget."

Mr. Chan says "Does Harbour Wave City Estates Limited have such a huge fund to spend on renovation? Besides, under the present economic environment, our company faces difficulty to employ young and capable staff."

Mr. Wong, the Human Resources Manager of Harbour Wave City Estates Limited proposes "Every year, many Mainland students graduate from the eight local universities. We can launch onsite recruitment sessions at the universities or we can provide training to our existing staff. For security staff, we can outsource the service to a professional security service company."

- (a) (i) Calculate the payback period of the renovation project of Harbour Wave City designed to enhance its competitiveness. (2 marks)
- (ii) Explain why a company does not adopt the payback period as its capital investment project appraisal method. (2 marks)
- (b) Explain whether Harbour Wave City Estates Limited should undertake the major renovation if the project is appraised under net present value method. (4 marks)  
(Note : The cost of capital is 10% per annum. Ignore the effect of taxation. )
- (c) Suggest how Harbour Wave City Estates Limited can make use of the promotion mix to attract overseas tourists to go shopping at Harbour Wave City. (8 marks)
- (d) (i) Suggest any two practicable methods to raise capital fund for Harbour Wave City Estates Limited. (2 marks)
- (ii) State the advantage to a company if rights issue is used in raising funds. (2 marks)
- (e) (i) Discuss two disadvantages of either one of the recruitment methods suggested by Mr. Wong. (4 marks)
- (ii) Apart from the recruitment methods suggested by Mr. Wong, list another effective way of staff recruitment. (2 marks)

(Total: 26 marks)

8. Wellington Company is a well-established wholesaler that sells Tiger Beer to restaurants and pubs in Hong Kong. The estimated annual sales are \$80 million. The selling price of each bottle of Tiger Beer is \$40. It is estimated that the total inventory carrying cost of each bottle is 10% of its price per year if a bottle is kept at stock. Since the Tiger Beer is imported from Mainland China, it is cheap to make an order. The ordering cost is \$400 per order. Currently, the company is ordering 5000 bottles each time by estimating its average sales figures.

The owner, Mr Wan has just taken a financial course and learnt about the management of current assets. He thinks that he should apply the EOQ concept in keeping stock for sale in order to minimize the inventory cost of his company.

Besides, there was a significant drop in sales and a number of staff left or retired over the last few years. The turnover rate was extremely high compared with other companies in the same industry. There were always complaints from its sales team on overtime work as well as the high quota requirement for each salesman. In addition to sales quota, there is also strict control over staff who are required to produce doctor certification with only half-day leave. Mr Wan is very concerned about the staff problem in the company. His son, who has an MBA Degree with sound knowledge in both human resources and marketing management, proposes to his father that the company should improve motivation for salesmen and spend more resources on advertising instead of personal selling in the promotion mix for the Company.

- (a) (i) What is the economic order quantity (EOQ) for Wellington Company? How much will be saved in inventory cost if Wellington Company adopts the EOQ method? (4 marks)
- (ii) Identify the limitation of the EOQ method. (2 marks)
- (b) Discuss the measures to improve the inventory management of Wellington Company. (4 marks)
- (c) Mr Wan wants to enlarge its sales of beer and he plans to relax trade credit to attract more retailers. Explain two major components of a trade credit policy. (4 marks)
- (d) Explain how Wellington Company can solve the problem of low staff morale by adopting the Herzberg's dual factor theory. (4 marks)
- (e) Suggest three methods to Mr Wan that can enhance motivation for salesmen employed in the company. (6 marks)

(Total: 24 marks)



**SECTION C**

Answer **ONE** question in this section.

9. A medium-sized mobile phone manufacturer experiences increasing difficulties in its operations. It needs to invest a lot in its new product development and market growth. The product life cycle of mobile phones is very short and it is found that a new model jumps to the maturity stage quickly.

- (a) Describe the common sources of fund for a medium-sized mobile phone manufacturer. (8 marks)
- (b) How can the medium-sized mobile phone manufacturer know that a mobile phone model has passed from the growth stage to maturity stage of its product life cycle? (12 marks)

(Total: 20 marks)

10. Hong Kong businesses have to face difficult times after the global financial crisis. In order to survive in this turbulent economic environment, businesses have adopted different approaches to increase their competitiveness. Recently, it is commonly believed that businesses with vision can retain some training and development programmes even if an economic downturn is on the way. Besides, more and more companies have shifted their rewarding policy to performance-linked compensation.

- (a) "Providing training and development opportunities for employees helps create a favourable situation for both employers and employees." Elaborate the above statement. (12 marks)
- (b) In order to implement such a performance-linked compensation policy, a good performance appraisal system is crucial. Discuss the criteria of a successful performance appraisal system. (8 marks)

(Total: 20 marks)

**END OF PAPER**

# Mock exam 4

Suggested Marking Scheme - Paper 2B

## SECTION A

### QUESTION 1

Marks

#### Disadvantages:

4

marks)

- cannot build up long-term brand preference
- quality image may be tarnished
- easily copied by competitors
- customers will delay purchases in anticipation of upcoming promotion

(2 marks for every relevant disadvantage with explanation, max 4 marks)

4 marks

marks)

### QUESTION 2

Marks

#### Reasons:

4

marks)

- Advancements in technology make products obsolete faster than before.
- The free economic policy has intensified the competition.
- Consumer preferences change faster than before.
- More businesses have become market-oriented.

(2 marks for every relevant reason with explanation, max 4 marks)

4 marks

### QUESTION 3

Marks

#### Objectives:

4

- objectives before the loss: economic guaranty / reduce anxiety / social responsibility
- objectives after the loss : maintain the company long-lasting operation / promote the company growth/social responsibility

(2 marks for every relevant objective with explanation, max 4 marks)

4 mark

QUESTION 4

Marks

4 ways to improve:

6

- apply SME loan
- speed up collection of accounts receivables
- defer payments for accounts payables
- reduction sale of inventory
- extra capital funding from existing shareholders or partners
- sell assets

(1.5 marks for every relevant method, max 6 marks)

6 marks

QUESTION 5

Marks

3 ways:

6

- Training: organize safety courses and activities to new employees or those having unsafe working habits or practices, e.g. how to use the knife and oven in the kitchen properly.
- Promotion: organize promotion programmes and activities to educate employees to increase the awareness of health and safety at work, e.g. to design posters to deliver the message of work safety.
- Re-engineering: redesign work procedures or layout that may cause accidents and dangers, e.g. the chefs must wash their hands before food preparation.
- Enforcement: set up policy and conduct safety audits at regular intervals to appraise the health and safety condition of the workplace.
- Company welfare policy: provide and maintain a safe and healthy working environment with adequate welfare, e.g. provision of rest periods, company medical benefits, number of holidays, etc.

(2 marks for every relevant way with explanation, max 6 marks)

6 marks

QUESTION 6

Marks

Reasons:

6

- Performance of a R&D staff is usually the collective work of the whole team.
- The setting of appraisal standards is difficult as it is difficult to quantify them.
- It is difficult to have accurate and objective measurement of the performance of R&D staff.
- The R&D staff may not agree on the performance standards as they may think that the management does not have idea of their pattern of working and contribution.
- There should be a higher frequency of performance appraisal, for example, after completion of a project. The workload for appraisal is heavy.

(2 marks for every relevant reason with explanation, max 6 marks)

6 marks

## SECTION B

Mock #4

## QUESTION 7

Marks

- (a) (i)  $T_0 = -\$6000$  (ten thousand) 2  
 $T_1-T_5 = \$2000 - \$100 = \$1900$  (ten thousand)  
 Payback period =  $3 \frac{3}{19}$  years
- (ii) **Reasons:** 2
- It does not consider the time value of money.
  - It does not consider the cash flow of the project over its entire life.
- (2 marks for every relevant reason with explanation, max 2 marks)
- (b) **Would the Harbour Wave City undergo the major renovation**
- $$NPV = \$\frac{19}{1.1} + \frac{19}{1.1^2} + \frac{19}{1.1^3} + \frac{19}{1.1^4} + \frac{19}{1.1^5} + (-60)$$
- = \$12.02 millions 1
- Since the project has been appraised with a NPV of \$12.02 M, the Harbour Wave City should undergo the major renovation. 1
- (3 marks for calculation and 1 mark for conclusion, max 4 marks) 2
- (c) **Promotion mix:** 8
- Advertising:
- CTV
  - Mainland China and international financial magazines and newspapers
  - leaflets on Hong Kong issued by Hong Kong Tourism Development Board
  - leaflets on Hong Kong issued by Hong Kong Trade Development Council
- Sales promotion:
- cooperate with mainland tourist and airline companies, offered shopping guidelines or discounts and coupons to tourists
  - offered free-of-charge shuttle buses from China-Hong Kong cross-border or MTR stations
  - VIP membership privilege
- Public relation:
- sponsored large-scale activities
  - setting up charity fund / participate charity activities or donations
- Personal selling/Direct marketing:
- direct email or through Internet
  - direct mailings to prospective customers
- (2 marks for every relevant promotion tool with explanation, max 8 marks)



Q7

(d) (i) 2 practical capital-raising methods: 2

- company retained profit
- bank mortgaged loan
- pledged debenture
- developer's holding company extra capital funding
- rights issue
- bank loan

(1 mark for every relevant method, max 2 marks)

(ii) Advantages: 2

- Existing shareholders can maintain their share of interests (the share of ownership would not be diluted).
- Enterprises do not need to shoulder high interest cost compared with issue of debenture.

(2 marks for every relevant advantage with explanation, max 2 marks)

(e) (i) 2 disadvantages of either one of the recruitment methods: 4

- Since it does not openly recruit, the company may not fairly recruit the best candidate.
- Many large companies recruit fresh graduates in higher education institutions so as to compete for human resources. As a result, many graduates may be offered jobs by many companies, and may finally decline the job offers from some of these companies.

(2 marks for every relevant disadvantage with explanation, max 4 marks)

(ii) Another effective way of staff recruitment: 2

- make use of the services of employment agencies
- issue recruitment advertisements

(1 mark for every relevant method, max 2 marks)



QUESTION 8

Mock #4

Marks

(a) (i) EOQ:

$$\text{Ordering Cost} = F \times \frac{D}{Q}$$

D = Annual demand of goods

$$\text{Carrying (storage) cost} = C \times \frac{Q}{2}$$

F = Ordering cost per order

$$\text{Total inventory cost} = F \times \frac{D}{Q}$$

C = Storage cost per unit

$$+ C \times \frac{Q}{2}$$

Q = Order quantity

Q\* = EOQ

$$\begin{aligned} D &= \$80,000,000 / \$40 \\ &= 2,000,000 \end{aligned}$$

EOQ:

$$\begin{aligned} &\sqrt{2 \times 2,000,000 \times \$400 / \$40 \times 10\%} \\ &= 20,000 \end{aligned}$$

1

If each order buy 5000 bottles, the total stock cost:

$$\begin{aligned} &= (\$400 \times 2,000,000 / 5,000) + (\$40 \times 10\% \times 5,000 / 2) \\ &= \$170,000 \end{aligned}$$

1

If each order adopts EOQ (20,000 bottles), the total stock cost:

$$\begin{aligned} &= (\$400 \times 2,000,000 / 20,000) + (\$40 \times 10\% \times 20,000 / 2) \\ &= \$80,000 \end{aligned}$$

1

If the company adopts EOQ method, the company can save the total stock cost:

$$\begin{aligned} & \$170,000 - \$80,000 \\ &= \$90,000 \end{aligned}$$

1

(ii) Limitations

2

- only applicable to non-perishable products
- only applicable to products with stable demand
- ignores delivery quantities and discounts
- assumes storage space is unlimited
- assumes retailer controls delivery scheduling

(2 marks for every relevant limitation, max 2 marks)

(b) Measures:

- Periodic inventory system - a physical count of items in inventory is made at periodic intervals to determine the quantities on hand.
- Perpetual inventory system - in which the flows and removals of items are kept track of on a continuous basis.
- Reduce order quantity

4

(2 marks for every relevant measure with explanation, max 4 marks)

Q8

(c) 2 major components:

4

- credit standards (to whom the business will sell on credit)
- credit terms (the conditions on which credit will be provided)
- collection strategies (how debts and receivable should be collected)

(2 marks for every relevant major component with explanation, max 4 marks)

(d) Herzberg's dual factor theory:

4

The presence of hygiene/maintenance factors can relieve the salesmen's complaints and grievance, eg,

- Avoidance of excessive overtime work to release salesmen's complaints (hygiene factor)
- Reasonable requirement on quotas for salesmen's achievement (hygiene factor)
- Suitable and appropriate policy for salesmen's sick leave request (hygiene factor)

(2 marks for every relevant factor with explanation, max 4 marks)

(e) 3 methods:

6

- Fair wage - offer reasonable overtime payment to salesmen (extrinsic reward)
- Reasonable quota system
- Bonus system/Reward scheme for those outstanding sales performance
- Staff training and development to enhance salesmen's performance
- Promotion prospects

(2 marks for every relevant method with explanation, max 6 marks)

---

24 marks

---

Mock #4

SECTION C

QUESTION 9

Marks

(a) Sources:

8

Short-term funds

- Trade credit - delay payment to suppliers of mobile phone parts
- Bank borrowing - secured by the company's inventory or fixed assets
- Factoring - raise funds by selling its Accounts Receivable to a financial institution

Long-term funds

- Bank borrowing - secured by the company's fixed assets
- Invite another shareholder to contribute towards equity capital
- Financial leasing - enter into long-term rental agreement that generally covers most of the economic life of the high-tech equipment
- Retained profits.

(2 marks for every relevant source with explanation, max 8 marks)

(b) Comparison of characteristics of different stages in Product Life Cycle:

12

	Growth	Maturity
Sales	Rapidly rising sales and fast growth	Peak sales and slow growth
Costs	Average cost per customer	Low cost per customer
Profits	Rising profits	High profits and begins to decline
Customers	Early adopters and mass market	Middle majority and mass market
Competitors	Growing	Stable number of rivals

(4 marks for every relevant comparison of the stages with explanation, max 12 marks)

20 marks



QUESTION 10

Marks

(a) Favourable situations:

12

Advantages to employers:	Advantages to employees:
- This can help build a more competent workforce to support the sustainable development of the business. In the long-term, accumulating human assets.	- In view of changing technologies and skills/attitude and shorter product life cycles, training and development will help equip themselves with the right skills and professional knowledge to keep pace with the times.
- It also demonstrates a long-term commitment to employee career development which, in return, can further enhance a company's corporate image as well as employee loyalty, enhance staff morale.	- As Hong Kong makes the transition to a knowledge-based economy, employees are encouraged to continue their life-long learning so as to secure their employability, maintain competitiveness.
- It helps improve overall productivity of the company. More flexible in job-transfer.	- For advancement, better career prospect, fulfill self-actualization need.

(3 marks for every relevant comparison of advantages with explanation, max 12

(b) Criteria:

8

- Determine common, reasonable and acceptable performance standards by active and wholeheartedly participation of employees
- Proper design, measurement and effective implementation of performance appraisal system
- Show top management commitment and communicate clearly on the linkage between effort and reward expectations
- Differentiation in reward is attainable and significant to induce better performance

(3 marks for every relevant criteria with explanation, max 8 marks)

20 marks