

**BUSINESS, ACCOUNTING AND FINANCIAL STUDIES PAPER 2B**  
**Business Management Module**

10:30 am – 12:45 pm (2 hours 15 minutes)

This paper must be answered in English

**INSTRUCTIONS**

- (1) There are three sections in this paper.
- (2) All questions in Sections A and B are compulsory. You are required to answer one of the two questions in Section C.
- (3) Write your answers in the answer book. Start **each** question (not part of a question) on a **new page**.

**SECTION A (24 marks)**

Answer **ALL** questions in this section.

1. Suggest three bases of market segmentation for a newly-established cake shop. (6 marks)
  
2. (a) What does the gearing ratio measure? (2 marks)  
(b) Explain two advantages of using equity financing over debt financing. (4 marks)
  
3. After conducting the performance appraisal for its salespersons, a shop selling sportswear decided to promote a junior salesperson to a senior post.  
  
Describe the steps in the performance appraisal process before making the promotion decision. (6 marks)
  
4. To determine a new market position, a fashion chain plans to develop a new product line. The initial cost of the development project is \$540 000 and it is expected to bring net cash flows of \$250 000, \$200 000, and \$150 000 at the end of the next three years respectively.  
  
(a) (i) Calculate the payback period of the development project (to one decimal place). (2 marks)  
(ii) Other than the payback method, explain one capital investment appraisal method that also uses net cash flows for the evaluation of projects. (2 marks)  
  
(b) What is meant by 'market positioning'? (2 marks)

**SECTION B (36 marks)**

Answer ALL questions in this section.

5. Happy Café is a coffee shop chain famous for its brewed coffee. It operates 10 branches in Hong Kong and has about 100 employees, including baristas, waiters and administrative staff.

In a meeting, Francis, the General Manager, said, 'Our turnover has dropped significantly due to intensified competition, which increases the risk of operating losses. We should adopt different risk management strategies to deal with this risk. Besides, we have to find ways to boost sales.'

Annie, the Marketing Manager, responded, 'Recently, many of our customers switched to the new fruit-tea shops which have opened nearby. This has created more competition. To boost sales, we will analyse factors affecting the buying decisions of customers and find ways to enhance customer loyalty.'

Jeff, the Finance Manager, added, 'Stimulating sales can prevent our coffee beans from becoming expired. The data shows that our annual demand for coffee beans has dropped from 8 600 kg to 7 300 kg. We have to pay more attention to inventory management and come up with a new re-order level.'

Sammi, the Human Resources Manager, said, 'Some new waiters will join our shops next month. Most of them are young and inexperienced. We will organise internal communication programmes to help them to adapt to the new working environment.'

- (a) Suggest two types of risk management strategies Happy Café could use to deal with the risk of the operating losses mentioned by Francis. (4 marks)
- (b) Explain two psychological factors affecting the buying decisions of the customers of Happy Café. (4 marks)
- (c) Suggest two ways for Happy Café to enhance customer loyalty. (4 marks)
- (d) Annual demand is a factor affecting the re-order level of coffee beans. Give one other factor and explain how it would affect the re-order level. (2 marks)
- (e) Suggest two internal communication programmes that could help the new waiters to adapt to the working environment. (4 marks)

(Total: 18 marks)

6. Sum Kee is a wholesaler of electrical appliances in Hong Kong. After reviewing the financial statements of the company for the year ended 31 December 2019, Henry, the General Manager, called a meeting to discuss the performance of the company.

In the meeting, Henry presented the following financial information for 2019:

	\$
Credit sales	25 180 000
Cash sales	10 860 000
Credit purchases	18 346 500
Cash purchases	657 000
Average trade payables	1 089 400
Trade payables turnover (industry average)	8.2 times

Henry was concerned and said, 'During the past few years, our sales revenues have been increasing steadily. However, our cash balance has been declining. I am afraid that we will run out of cash very soon. What should we do to avoid this?'

Mark, the Finance Manager, responded, 'Improving our cash position is the most important short-term target. We will do a ratio analysis to see whether we can improve our cash position by managing the different components of the working capital.'

Henry said, 'I am optimistic about the local economic environment. We should plan in advance to further boost the sales.'

Ricky, the Marketing Manager, responded, 'Agree. We will conduct marketing research to collect information from retailers, so that we can formulate an appropriate marketing strategy.'

Allen, the Human Resources Manager, added, 'We will arrange off-the-job training for the salespersons next month. This can improve their performance, which will help to boost sales.'

- (a) Calculate the trade payables turnover (in times, to two decimal places) of Sum Kee for 2019. (2 marks)
- (b) With reference to any three components of working capital, suggest one way for each component to improve the cash position of Sum Kee. (6 marks)
- (c) Give two types of data collection methods and explain how Sum Kee could use each of them to gather information from retailers. (4 marks)
- (d) (i) From the perspective of Sum Kee, explain two reasons for arranging off-the-job training instead of on-the-job training for the salespersons. (4 marks)
- (ii) Suggest one off-the-job training method for Sum Kee that could improve the performance of its salespersons. (2 marks)

(Total: 18 marks)

**SECTION C (20 marks)**

Answer **ONE** question in this section.

7. A company is producing and selling toys which are currently in the maturity stage of the product life cycle. The operations manager found that both the material variance and labour variance of last quarter were unfavourable.
- (a) For the toys in the current stage of the product life cycle, propose appropriate marketing mix strategies for the company. (10 marks)
- (b) Suggest ways to deal with the unfavourable material variance and labour variance. (10 marks)
- (Total: 20 marks)

8. The staff turnover rate of a hair salon has been quite high in recent months. Besides, a large number of complaints have been received from customers about a deterioration in service quality.
- (a) Applying Maslow's Hierarchy of Needs Theory, suggest ways to reduce the staff turnover rate of the hair salon. (10 marks)
- (b) With reference to the characteristics of service, propose ways to improve the service quality of the hair salon. (10 marks)
- (Total: 20 marks)

**END OF PAPER**