

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 Section A are compulsory. You are required to **answer one of the two questions in both Section B and Section C.**
- (3) Write your answers in the answer book. Start **each** question (not part of a question) on a **new page.**

Not to be taken away before the
end of the examination session

SECTION A (24 marks, weighting 30%)

Answer **ALL** questions in this section.

1. (a) Suggest two internal communication programmes that could help the management of a large enterprise understand the opinions of the employees towards a new policy. (4 marks)
- (b) With reference to McGregor's Theory X and Theory Y, give one assumption of Theory Y employees and suggest one way to motivate them based on this assumption. (2 marks)
2. (a) Explain the meaning of 'market positioning' for a newly-established airline company. (2 marks)
- (b) Suggest two on-the-job training methods for newly-recruited aircraft maintenance technicians in this airline company. (4 marks)
3. (a) Apart from setting competitive prices, suggest two competitive advantages that a fitness centre could create for the business. (4 marks)
- (b) Which element of the promotion mix is used by the fitness centre if it provides free trial lessons to the target customers? State one objective for using this element. (2 marks)
4. (a) Explain one purpose of budgeting for a business. (2 marks)
- (b) The financial information related to a firm for 2022 is as follows:

	\$
Total purchases	1 500 000
Cash purchases	1 180 000
Average trade payables for 2022	280 000

- (i) Calculate the trade payables turnover (to two decimal places) for 2022. (2 marks)
- (ii) The trade payables turnover of the firm for 2021 was 6 times, which was the same as the industry average of 2021 and 2022. Comment on the firm's performance in managing its trade payables in 2022. (2 marks)

SECTION B (18 marks, weighting 45%)

Answer **ONE** question in this section.

5. Tsuen Kee is a company selling camping products, including camping costumes, tents and cook sets. It operates five retail stores in its self-owned properties in Hong Kong. It hires about fifty employees, including shop managers and salespeople.

In a regular meeting, Andy, the General Manager, said, 'As more local people go camping and join outdoor activities at the countryside during holidays recently, both our sales volume and net profit have increased significantly. We should grasp this opportunity to expand our business. We will open a flagship store in Fun Square, a large shopping mall in Mong Kok, to introduce a wide variety of camping products to attract more customers. Tracy, should we use the accounting rate of return method to evaluate the financial feasibility of this expansion project?'

Tracy, the Finance Manager, responded, 'Since the time value of money is not considered in the calculation of the accounting rate of return, we should use the net present value method instead. Although both our sales volume and net profit have been increasing in recent years, we do not have much cash left as we have just repaid all long-term loans on time. We need to apply for another bank loan to support this expansion project.'

Ken, the Marketing Manager, said, 'Currently, there are some small stores selling camping products in Fun Square. They have been operating for more than ten years. Most of them sell camping products of local brands at low prices. We will face keen competition if we open the flagship store there. In order to attract more customers, we can analyse the socio-cultural factors affecting customers' buying decisions so as to formulate appropriate marketing mix strategies for our flagship store.'

Martin, the Human Resources Manager, added, 'We have to recruit salespeople and a shop manager for our flagship store. Since the latest staff turnover rate was higher than expected, I suggest promoting an existing salesperson to be the flagship store manager in order to improve staff morale. We can conduct a performance appraisal to decide which salesperson to be promoted.'

- (a) Apart from the reason mentioned by Tracy, give one other reason why Tsuen Kee should use the net present value method instead of the accounting rate of return method to evaluate the expansion project. (2 marks)
- (b) With reference to the '5Cs' of the credit standard, explain two factors that should be considered by a bank when deciding whether to grant credit to Tsuen Kee. (4 marks)
- (c) Explain two socio-cultural factors affecting the buying decisions of Tsuen Kee's customers. (4 marks)
- (d) Suggest two product strategies for the flagship store to attract customers under keen competition. (4 marks)
- (e) Apart from the purpose mentioned by Martin, explain two other uses for Tsuen Kee to conduct a performance appraisal for its salespeople. (4 marks)

(Total: 18 marks)

6. Foodie is a retail chain selling frozen food which has stores in different districts. All goods are sold for cash while purchases are made in cash or on credit. It is equipped with advanced meat cutters and packaging equipment to ensure food safety and lower the cost.

At the beginning of operations, the annual sales growth rate of Foodie was quite high. But its sales growth has slowed down in recent years as many competitors have entered the market. To figure out appropriate actions, Ray, the General Manager, called a meeting with different department managers.

Ray said, 'The operating environment has become unfavourable in the last few months. We may need to close those branches which report continuous losses. We could also introduce new products to attract customers. However, we should understand customers' preferences first.'

Minnie, the Marketing Manager, responded, 'We can use observational research to gather information on customers' preferences for determining the types of products to be introduced. Besides, online shopping is popular nowadays. I suggest increasing sales channels to develop new customer bases by expanding our business to online shopping platforms.'

Lily, the Human Resources Manager, said, 'Both closing down branches and expanding to online business have impacts on the allocation of manpower. Based on the above proposal, I will conduct manpower planning and formulate appropriate action plans after comparing the manpower demand and supply.'

Ray said, 'I believe we have enough cash flow to support the expansion to online shopping platforms.'

Alex, the Finance Manager, responded, 'I have reservations. The cost of goods sold for 2022 was \$10 000 000. The closing inventory was \$811 000, which was higher than the opening inventory by \$266 000. The inventory turnover was lower than last year. This would affect the cash conversion cycle and cash flow of the company.'

- (a) Identify the stage of the product life cycle of the frozen food industry. Give two pieces of evidence from the case to support your answer. (3 marks)
- (b) Describe how Foodie could adopt the data collection method suggested by Minnie to gather information on customers' preferences. State two limitations of adopting this method. (4 marks)
- (c) Explain two action plans that should be taken by the Human Resources Department of Foodie after comparing the manpower demand and supply. (4 marks)
- (d) Calculate the inventory turnover (to two decimal places) of Foodie for 2022. (2 marks)
- (e) (i) Describe the cash conversion cycle of Foodie. (3 marks)
- (ii) Explain how the drop in the inventory turnover would affect the cash conversion cycle of Foodie. (2 marks)

(Total: 18 marks)

SECTION C (20 marks, weighting 25%)

Answer **ONE** question in this section.

7. Yummy Dining Group is a private limited company which operates over ten Chinese restaurants in Hong Kong. The group is reforming and planning to adjust the pricing strategies for its restaurants based on different marketing objectives. Moreover, it will introduce performance-based pay to motivate employees.
- (a) Illustrate with examples the marketing objectives that this dining group could consider when adjusting the pricing strategies for its restaurants. (10 marks)
 - (b) Suggest the forms of performance-based pay that this dining group could introduce and explain how each form could motivate the employees. (10 marks)

(Total: 20 marks)

8. A Hong Kong listed home appliances manufacturer will start its retail business under a new brand name, and expand the production capacity of its factory. It will distribute its products through a large retail chain. The company is also considering raising funds for the expansion either by debt financing or equity financing.
- (a) Explain the advantages for the manufacturer of distributing home appliances through a large retail chain. (8 marks)
 - (b) Explain the factors that the manufacturer should consider when choosing debt financing or equity financing to raise funds. (12 marks)

(Total: 20 marks)

END OF PAPER