

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**.

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

SECTION A (24 marks)

Answer **ALL** questions in this section.

1. (a) Define pure risk and speculative risk. (2 marks)
(b) Briefly explain two types of liability insurance a theme park should take out. (4 marks)

2. Explain any three components of the '5Cs' of the credit standard that a bank considers when deciding whether to grant credit to a borrower. (6 marks)

3. Outline three objectives of providing training to the drivers of a transportation company. (6 marks)

4. With reference to any three elements of the marketing mix, suggest one way in which each can be used to market a product in the decline stage of the product life cycle. (6 marks)

SECTION B (36 marks)

Answer **ALL** questions in this section.

5. Marco is the owner in the form of a sole proprietorship of an eyewear retail chain, selling different brands of glasses. Currently, the chain has 11 retail stores all over Hong Kong, and has 30 administrative staff and 60 salespersons. To grasp the opportunity offered by market expansion, Marco wants to open more branches in the coming five years. He is considering various ways to finance his expansion plan.

In a meeting, Daisy, the Marketing Manager reported, ‘According to research, the market demand for eyewear is increasing. Customers are more willing to spend money on trendy and high class eyewear. We have already put more resources into advertising in the past three months. I believe that this marketing strategy has helped bring in new customers.’

David, the Finance Manager agreed, ‘With increased advertising, our sales have increased substantially.’

John, the Human Resources Manager responded, ‘I am pleased to know that the sales performance has improved. However, our recent staff appraisals show that many salespersons are not satisfied with their jobs. In fact, their salary level is higher than the market rate. We have also offered long-term employment contracts and comprehensive benefits to them. We may need to find other ways to improve their morale.’

Marco asked, ‘Besides enhancing salespersons’ morale, what else can we do to further increase sales?’

Daisy replied, ‘Many companies have started implementing a customer relationship management (CRM) system to help increase sales to existing customers. Shall we also introduce a CRM system to achieve this goal?’

John added, ‘If we decide to adopt a CRM system, then we have to recruit a manager to lead this new project. We may consider appointing the customer relationship manager through internal promotion.’

- (a) List three types of methods that Marco could use to finance his five-year expansion plan. Give one disadvantage of each of them. (6 marks)
- (b) With reference to Maslow’s Hierarchy of Needs Theory, explain two levels of needs which Marco’s retail chain may not currently satisfy for its salespersons. (4 marks)
- (c) Give two reasons why customer relationship management could help increase sales to existing customers. (4 marks)
- (d) Outline two limitations of appointing a customer relationship manager through internal promotion. (4 marks)

(Total: 18 marks)

6. King's Restaurant, an international catering chain, has been operating in Hong Kong for a few decades. Its market position is to provide customers with innovative catering services at an affordable price. Its sales and profits have been growing steadily. However, the chain has recently been troubled by complaints about its deteriorating service quality.

In a meeting, May, the Marketing Manager said, 'We are facing keen competition in the catering industry, so it is important to maintain our service quality. However, we have received complaints from customers that the dining environment is unpleasant and some waiters are rude. Sometimes customers need to wait for a long time to be served.'

The Finance Manager, Simon, responded, 'Our revenue is growing at a decreasing rate, and improving our service quality will certainly boost sales.'

The Information Technology Manager, Danny, suggested, 'Some restaurants in other countries have started using robots to take orders and deliver dishes to customers. We should conduct a feasibility study on the introduction of this technology.'

May said, 'I agree with adopting the robotic system as it can provide innovative service which matches our market position. We could do market research to explore whether customers would accept robot service in general. I suggest sending questionnaires to all customers in our membership scheme to collect their views on a robotic system.'

The Managing Director, Peter, queried the reliability of the information collected from questionnaires. He wanted to examine the project's feasibility from the financial perspective.

After the meeting, Simon estimated that the initial outlay for the robotic system would be \$4 000 000, with a project life of 3 years. The cost of capital would be 6%. Taking into consideration the annual expenses incurred and savings in labour costs, the net cash flow generated by the robotic system would be \$1 420 000 per year.

- (a) With reference to any three characteristics of service, explain how King's Restaurant can solve the problems with its service quality. (6 marks)
- (b) Outline two limitations of sending questionnaires to all customers in the membership scheme to explore whether customers generally accept robot service. (4 marks)
- (c) Based on Simon's financial estimates,
- (i) calculate the payback period of the robotic system (round to 2 decimal places). (2 marks)
- (ii) calculate the net present value of the robotic system (round to an integer). (2 marks)
- (d) Based on the net present value calculated in (c)(ii) above, explain whether the robotic system project should be accepted. (2 marks)
- (e) Other than the payback period method and the net present value method, suggest and explain one other capital investment appraisal method for evaluating the robotic system project. (2 marks)

(Total: 18 marks)

SECTION C (20 marks)

Answer **ONE** question in this section.

7. An airline company is considering enhancing the fringe benefits of its employees. In order to investigate the financial affordability of this measure, the company uses accounting ratios to evaluate its performance.
- (a) Describe the aspects of the airline company's performance that could be evaluated using accounting ratios. (8 marks)
 - (b) Illustrate with examples the purposes of providing fringe benefits to the employees of an airline company. (12 marks)
- (Total: 20 marks)

8. The marketing manager of a fashion chain is going to formulate a marketing plan. The buying behaviour of the customers is his major concern.
- (a) Describe the steps in formulating a marketing plan for the fashion chain. (8 marks)
 - (b) Illustrate with examples the socio-cultural factors and psychological factors affecting the buying decisions of the fashion chain's customers. (12 marks)
- (Total: 20 marks)

END OF PAPER