

HONG KONG EXAMINATIONS AND ASSESSMENT AUTHORITY  
HONG KONG DIPLOMA OF SECONDARY EDUCATION EXAMINATION

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

(2 hours 30 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

Answer **ALL** questions in this section.

1. Explain two advantages of using debt financing. (4 marks)
  
2. List two activity ratios and state what aspects of management efficiency each of them measures. (4 marks)
  
3. List four commonly used channels for external recruitment. (4 marks)
  
4. Outline three types of consumer protection measures in Hong Kong. (6 marks)
  
5. Describe three differences between a consumer market and a business market. (6 marks)
  
6. Conciliation and arbitration are commonly used in resolving labour disputes. Outline three differences between them. (6 marks)

## SECTION B

Answer **ALL** questions in this section.

7. Moon Flower is a small travel agency established eight years ago specialising in selling travel related products and making travel arrangements for business and individual travellers. Daisy, the sole owner of Moon Flower, makes all the major decisions and relies only on ad hoc meetings to communicate with her employees. As a result, staff in the firm get used to waiting for Daisy's instructions and follow closely her work orders.

Moon Flower has been growing steadily with the recent increase in people travelling abroad. However, as the level of manpower is more or less the same as eight years ago, the workload of staff has become very heavy and most staff need to come to the office early in the morning and leave late at night. Although overtime payments are paid to the front-line employees in addition to their basic salary, they are dissatisfied and complain about overwork and underpayment compared to the industry average. Some of them have even started looking for new jobs and plan to leave the firm.

In addition, there seems to be a lack of coordination among employees, which leads to frequent delays of work and some key corporate accounts left unattended. Complaints over the poor service of the firm are increasing and employees are busy handling angry customers.

Daisy is very worried about the situation. She tries to establish a manpower plan and revise the existing compensation system to cope with the problems. In view of the potential growth in the business, Daisy also considers expanding her business by establishing a website and setting up new branches in other districts. Apart from the Small and Medium Enterprises (SME) Development Fund, Daisy wants to explore other sources of funds for the operations and expansion of the business. Therefore, she starts to analyse the firm's financial position and prepare a cash budget.

- (a) Describe two advantages of Daisy's practice of making all the major decisions of Moon Flower by herself. (4 marks)
- (b) Explain why the front-line employees of Moon Flower feel dissatisfied with reference to:
- (1) Maslow's Hierarchy of Needs Theory (4 marks)
- (2) McGregor's Theory X and Theory Y (4 marks)
- (c) Suggest two measures by which the situation of lack of coordination among Moon Flower's employees can be improved. (4 marks)
- (d) Describe the steps in manpower planning that Daisy should follow. (8 marks)
- (e) Apart from the SME Development Fund, list two other sources of funds for Moon Flower's operations and expansion. (2 marks)

(Total: 26 marks)

8. Century Group is a large local manufacturer of consumer electronics with a mission to provide entertainment to as many people as possible. With the growing popularity of interactive electronic games, the Group has developed a four-dimensional (4D) portable electronic game device. In a management meeting, Mr Lam, the Chief Executive Officer, said, “After spending several years on research and development (R&D), it’s time for us to reap our rewards and be the leader in the market.”

Ms Ho, the Marketing Manager, responded, “To launch the new product, we need to develop effective marketing strategies. As the 4D portable electronic game device is in the introductory stage of the product life cycle, we have to select our target market carefully and formulate appropriate marketing mix strategies. According to my preliminary analysis, the new product can be marketed as a high-priced version which targets high income professionals, or it can be marketed as a low-priced version which targets the general public.” The estimated net cash flows of the two versions are presented in the following table:

	<u>High-priced version</u> \$ (in millions)	<u>Low-priced version</u> \$ (in millions)
Year 0	-100	-70
Year 1	40	30
Year 2	60	50
Year 3	80	80
Year 4	50	60
Payback Period	2 years	?
Net Present Value (cost of capital is 10%)	\$80 206 270	?

Mr Lam said, “Your analysis reminds us that we have to be aware of the financial implications of launching the new product. Since we have already spent a vast amount of capital on the R&D of the new product in the past few years, if we further spend a considerable amount of money in marketing the new product, the pressure on capital would put our Group into a tight financial situation. As our Group is not able to undertake both versions, we have to choose one of them. I would choose the low-priced version.”

Mr Fok, the Financial Manager, remarked, “I think financial control is important. Say for example, although the purchase price of raw materials and the wage rate of our employees were the same as budgeted, the actual spending on these two areas substantially exceeded the budgeted spending in the last financial year.”

- (a) With reference to the concept of the product life cycle, state four characteristics of the market of the 4D portable electronic game device. (4 marks)
  - (b) Ignoring any tax implications, calculate (1) the payback period and (2) the net present value of the low-priced version of the 4D portable electronic game device. Show your workings. (4 marks)
  - (c) Give three reasons to explain why Century Group should launch the low-priced version of the 4D portable electronic game device. (6 marks)
  - (d) Suggest the appropriate marketing mix strategies for the low-priced version of the 4D portable electronic game device. (8 marks)
  - (e) For (1) raw materials and (2) wages, suggest a reason for each to explain why there was a variance between the actual spending and the budgeted spending of Century Group in the last financial year. (2 marks)
- (Total: 24 marks)

## SECTION C

Answer **ONE** question in this section.

9. A company is considering applying for the rights to distribute a branded electric car in Asia. As a risk reduction measure, the company plans to conduct market research to assess the market potential of the electric car.
- (a) Describe the steps involved in conducting market research to assess the market potential of the electric car. (8 marks)
- (b) Suppose the company finally got the distribution rights. Apart from the risk reduction strategy, discuss the other risk management strategies that the company can adopt for distributing the electric car. (12 marks)
- (Total: 20 marks)
10. A large company has recently employed a group of young university graduates who have a great need for achievement. The company wants to develop them to take up senior management positions in the future. Discuss how the company could tailor its human resources management functions to support the development of the new recruits. (20 marks)
- (Total: 20 marks)

**END OF PAPER**