Accounting Technicians Ireland

Business Management

1st Year Examination

August 2011

Paper, Solutions & Examiner's Report

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Accounting Technicians Ireland

1ˢᵗ Year Examination: Autumn 2011

Paper : BUSINESS MANAGEMENT

Wednesday 17ᵗʰ August 2011 – 9.30 a.m. to 12.30 p.m.

INSTRUCTIONS TO CANDIDATES

Answer FOUR questions in total. QUESTION 1 IN SECTION A IS COMPULSORY AND MUST BE ANSWERED. Answer ANY THREE questions in Section B. If more than the required number of questions is answered, then only that number, in the order filed, will be corrected.

Candidates should allocate their time carefully.

Answers should be illustrated with examples, where appropriate.

Question 1 begins on page 2 overleaf.

SECTION A

Answer QUESTION 1 (Compulsory) in this Section

QUESTION 1 *(Compulsory)*

(a)   Identify and explain all <u>four</u> phases of the lifecycle of a typical product.

10 Marks

(b)   Using "detergents", "dish washing tablets" and "iphones" as examples, suggest where they may be located on the lifecycle chart in (a) above, giving reasons in support of your answer.

10 Marks

(c)   Comment critically on the usefulness of the product life cycle as a marketing concept.

<u>5</u> Marks
Total <u>25</u> Marks

SECTION B

Answer any THREE of the six questions in this Section

QUESTION 2

(a)   What does the term "organisational leadership" mean? Describe <u>three</u> skills of effective leaders.

10 Marks

(b)   Describe the "Expectancy Theory" theory of motivation. Critically evaluate its merits and limitations in the present business climate.

10 Marks

(c)   Outline <u>three</u> benefits of effective teamwork in organisations**.**

<u>5</u> Marks
Total <u>25</u> Marks

QUESTION 3

You work in the hotel industry and attended sessions at a conference recently on "Customer Relationship Management" and "Internet Marketing". You have been asked by your manager to prepare a briefing paper which addresses the following:

(a) Explain what is meant by "Customer Relationship Management", in particular how the distinction between relationship marketing and transactional marketing is relevant in your industry.

10 Marks

(b) Describe <u>three</u> ways in which the Internet is being used as a marketing tool in your industry.

10 Marks

(c) What is meant by the term "market positioning"?

<u>5</u> Marks
Total <u>25</u> Marks

QUESTION 4

(a) Mintzberg described ten roles commonly undertaken by managers of business organisations. Describe any <u>four</u> of these roles.

10 Marks

(b) Describe <u>two</u> advantages and <u>two</u> disadvantages associated with MBO in organisations.

10 Marks

(c) Explain what is meant by a Matrix Organisational Structure.

<u>5</u> Marks
Total <u>25</u> Marks

QUESTION 5

(a) "PESTLE analysis" is an important part of the strategic planning process. Explain what the term means and how it contributes to the development of strategy, drawing on examples as appropriate.

10 Marks

(b) "Services have characteristics that are unique" Describe the <u>four</u> distinguishing characteristics of services.

10 Marks

(c) Describe <u>two</u> merits and <u>two</u> limitations of TV as an advertising vehicle.

<u>5</u> Marks
Total <u>25</u> Marks

QUESTION 6

(a) Explain <u>four</u> areas that would be examined as part of a Feasibility Study, giving examples of issues that should be addressed in each case.

10 Marks

(b) Give <u>three</u> examples of intentional threats to an Information System and outline any <u>two</u> steps that could be undertaken to minimise threats of this nature.

10 Marks

(c) Explain what is meant by an ERP information system.

<u>5</u> Marks
Total <u>25</u> Marks

QUESTION 7

(a) Describe the stages in the budgeting process. Describe <u>three</u> problems associated with budgeting in practice.

10 Marks

(b) Describe <u>two</u> long term sources of finance commonly accessed by organisations.

10 Marks

(c) Distinguish between the acid test and the gross profit ratio.

<u>5</u> Marks
Total <u>25</u> Marks

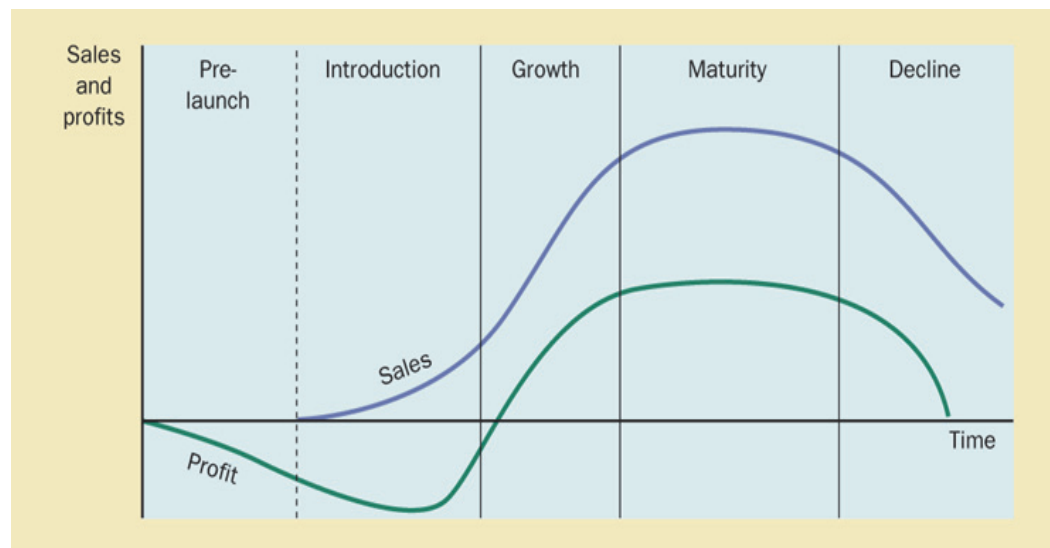# 1st Year Examination: August 2011

Business Management

Suggested Solutions

Students please note: These are suggested solutions only; alternative answers may also be deemed to be correct and will be marked on their own merits.

Suggested Solution 1

Part A

All products have a life cycle - this model includes the main stages through which individual products develop over time. It extends from pre-launch to obsolescence. The pre-launch stage (as seen in diagram below) refers to the marketing activities prior to the launch or commercialisation of the new product.

The main characteristics of each stage are summarised below:

Introduction

- Low sales & high costs as the product is being introduced to the market
- Competition is limited
- Customer type is known as an innovator
- Core objective is to generate awareness among the target audience

Growth

- Rising sales, costs declining and profits being achieved
- Growing number of competitors entering the market
- Customer type is known as an early adopter
- Core objective is to increase demand in order to increase market share

Maturity

- Sales & profits reach their peak, cost per customer is low
- Competition is intense
- Customer type is known as middle majority
- Core objective is to maximize profit and maintain market share

Decline

- Sales & profits decline
- Number of competitors have reduced
- Customer type is known as a laggard
- Core objective is to exploit the brand

Suggested Solution 1 *(Cont'd)*

Part B

The PLC concept helps interpret the market dynamics associated with individual products. Not all products follow the standard product lifecycle. Some products are introduced and die off quickly; others stay in the mature stage for a long time. Some enter the decline stage and are then cycled back into the growth stage through strong promotion or repositioning.

Whilst the exact shape and length of a products lifecycle may not be known in advance, the company's task is to recognise the lifecycle pattern of its offerings and to devise appropriate marketing strategies for its portfolio.

Detergents

Detergents are probably at the maturity stage of the product lifecycle. They are well established and long standing brands. They come in a variety of forms, powder, tablet and liquid. All of which have been in existence for some time. Competition in the sector is intense with various brands claiming to be whiter than white. Price competition is particularly intense at the moment. Competition on the basis of other attributes is also taking place (e.g. such as cleaning best at the lowest temperatures thereby being more eco-friendly). Sales and profits are probably at their peaks for these products as they exist in their current forms. As detergents are seen as a necessity by most households these products are likely to stay in the maturity stage for some time to come.

Dishwashing Tablets

These products are probably in the maturity stage of the product lifecycle, although the newer variants (e.g. tablets with powerball etc.) are probably in the growth stage. The new improved tablets appeal to early adopters as they contain elements designed to protect the dishwasher. As in most sectors competitors are constantly scanning the markets to sense change. Larger manufacturers may well also enter this market if they consider it lucrative or if indeed they believe they can develop a variant that is likely to be more successful than existing brands.

iPhones

As Apple has introduced a number of versions of the iPhone recently (e.g. iPhones 3 and 4) and are about to introduce the iPhone 5, it is fair to say iPhones are located at different places on the Lifecycle chart.

The iPhone 3 is probably in the decline stage, iPhone 4 at the maturity stage and iPhone 5 at the pre-launch stage.

Whilst the costs of development of the iPhone 5 have probably been very high, it is expected that it will proceed through the growth stage rapidly. Whilst there may be little competition initially, past experience suggests many of the features of these new products will make their way into competing products within a relatively short period.

Suggested Solution 1 *(Cont'd)*

Part C

The PLC concept helps focus attention on the potential life span of a product and the distinct phases of its life span. Many products do exhibit distinctive life cycle patterns that allow marketers to target and exploit the different phases (e.g. set prices and advertising to attract early adopters etc.).

However the model is subject to some common criticisms as follows :

1. the duration of the PLC stages is unpredictable

2. it is challenging to map the location of products with certainty

3. it may lead to overly objective or presumptive strategic prescriptions

4. little recognition is given to the fact that the PLC pattern may be the result of

    marketing strategies rather than an inevitable course that sales must follow

5. Not all products follow the classic PLC curve

Overall the concept is a useful analytical tool but like many models in the social and business sciences it has to be used with caution.

Suggested Solution 2

Part A

Organisational leadership is an interpersonal process whereby the firm attempts to influence employees in accomplishing objectives. It is a process of motivating people to act in particular ways in order to achieve specific goals. John Quincy Adam's quote captures it well

"If your actions can inspire others to dream more, learn more, do more and become more, then you are a leader"

Leaders have multiple motives and goals, personal as well as organisational. The ability to provide leadership is one of the most important skills a manager can possess. It can be demonstrated by any employee at any level of an organisation. Opportunities to display leadership skills tend to occur more generally amongst those occupying supervisory and managerial positions.

There is much debate about what effective leadership means. A number of desirable leadership skills have been put forward by theorists over the years, including the following:

Empathy

This involves showing an understanding and identification with another person's feelings, situation and goals. An example of empathy may include a leader's ability to accommodate family / private issues of employees.

Competency

An effective leader's actions should be based on reason and moral principles and not on emotional desires or feelings. (e.g. an example of competency would be the ability of the leader to make decisions based around the realities of the market place and not to be influenced by his / her emotions).

Forward Looking

They should have the ability to set goals and have a vision of the future. This vision should be owned throughout the organisation. Examples here include growing the firm into the market leader with a ten-year period.

Emotional and Social Intelligence

They should have an awareness of one's own and others' emotions and the ability to manage them. They should have a strong sense of social perceptiveness and behavioral flexibility. (e.g. the ability to change their behaviour to match the situation).

Communication

An effective leader should be an excellent communicator.

Suggested Solution 2 *(Cont'd)*

Part B

Expectancy theory holds that people make conscious choices about their motivation. The three factors that affect these choices are valance, expectancy, and instrumentality.

Valance is simply the attractiveness or desirability of various rewards or outcomes. Expectancy theory recognizes that the same reward or outcome, say, a promotion, may be highly attractive to some people and less so for others.

Accordingly, when people are deciding how much effort to put forth, expectancy theory suggests they will consider the valance of the various rewards and outcomes that are likely to arise from doing so. The greater the sum of those valences, each of which can be positive, negative, or neutral, the more effort people will choose to give to the job.

Expectancy is the perceived relationship between effort and performance. When expectancy is strong, employees believe their hard work and effort will result in a good performance, so they work harder. By contrast, when expectancy is weak, employees figure that no matter what they do or how hard they work, they won't be able to perform their jobs successfully, so they don't work as hard.

Instrumentality is the perceived relationship between performance and rewards. When instrumentality is strong, employees believe that improved performance will lead to greater rewards, so they choose to work harder. When instrumentality is weak, employees don't believe that better performance will result in better rewards, so they choose not to work as hard.

Expectancy theory holds that for people to be highly motivated, all three variables – valance, expectancy, and instrumentality - must be high. Thus, expectancy theory can be represented by the following simple equation

Motivation = Valance * Expectancy * Instrumentality

If any one of these variables declines overall motivation will decline too.

Suggested Solution 2 *(Cont'd)*

In summary it may be depicted as follows:

Expectancy *(Do I believe the effort will lead to performance?)*	The probability perceived by the individual that exerting a given amount of effort will lead to a certain level of performance
Instrumentality *(Do I believe performance will lead to reward?)*	That performing at a particular level is instrumental in, or will lead to, the attainment of a desired outcome.
Valence *(Do I value the reward?)*	The importance that the individual places on the potential outcome or reward that can be achieved on the job

Merits and Limitations

Motivation is a complex concept. There are a variety of factors which influence the meanings people give to a situation and which prompt them to act in particular ways. Some writers make an important distinction between the motivation of other people and motivating oneself.

"Motivating other people is about getting them to move in a direction you want them to go in order to achieve a result".

"Motivating yourself is about setting the direction independently and then taking a course of action which will ensure that you get there".

Process theorists such as expectancy theorists propose that people are more complex, more pragmatic and more contemplative than need theorists suggest. They seek to establish not only what people want from their work situations, but how they believe they can actually achieve it and what influences the process. These theories focus on the dynamic of how people decide as individuals what motivates them. Emphasis is placed on the cognitive processes.

Content theories of motivation assume that needs are the most important determinant of an individual's level of motivation. These theories focus on the following question;

"What initiates or stimulates behaviour?"

There is no one universally accepted all encompassing theory of motivation.

Suggested Solution 2 *(Cont'd)*

The merits and limitations of expectancy theory may be summarised as follows:

Merits	Limitations
Identifies that people decide on how much to contribute	Peoples estimates differ
It strives to be measurable	Valence is subjective
Aims to be predictive	Individuals never can have complete knowledge of outcomes
Clearly states that motivation is made up of positive motivation and positive valence together	It does not measure performance only motivation

It could be argued that in the present business climate expectancy theory brings the linkages underlying motivation into sharper focus and that these are more important in recessionary times. (e. g. people may be more instrumental in their outlook now than heretofore). On the other hand it could be argued that it may have less relevance as employers may not be in a position to offer or honour performance based reward systems of this nature.

Part C

Teams fulfill a number of functions in organisations. They tend to be established to fulfill specific ends. However they actually may become cohesive units that outlive their original purpose and in that sense they can take on a life of their own. Effective teamwork brings a number of benefits to organisations

1   A clearer unity of purpose
2.   A feeling of greater mutual trust and interdependency
3.   Supportive, informal and relaxed atmosphere
4.   Free flow of information and communication
5.   An ability to resolve conflict constructively
6.   Better use of resources (e.g. collective mind sets addressing issues etc.)

Suggested Solution 3

Part A

Customer relationship marketing (CRM) is a customer-centric business strategy with the goal of maximising profitability, revenue, and customer satisfaction. It involves building and maintaining profitable customer relationships by delivering enhanced customer value and satisfaction. Customer satisfaction depends on the product's perceived performance relative to a buyer's expectations.

The key is to match customers expectations with company performance. CRM involves

Developing customer loyalty
Emphasising customer service
Looking at the long term

Relationship marketing is a customer-centric strategy with the goal of maximising profitability, revenue and customer satisfaction. It involves building and maintaining profitable customer relationships by delivering enhanced customer value and satisfaction. Customers perceive "value" when they evaluate the difference between all the benefits and all the costs of a marketing offer. Customer satisfaction depends on the products' perceived performance relative to a buyer's expectations. The key is to match customer expectations with company performance.

In this regard companies should strive to institute customer loyalty and retention programmes in order to build relationships. These include:

1. Offering financial benefits, such as frequency programmes which can include air-miles, loyalty cards or money off vouchers

2. Offering social benefits, such as club marketing programmes

3. Offering structural ties such as offering free printers with computers or free CD's with newspapers

Transactional marketing delivers the rational and functional basic components of value delivery. This type of marketing generates passive, transitory, and reactive relationships with the customer and tends to be short term in nature.

The characteristics of each approach may be summarised below:

Characteristic	Transactional Marketing	Relationship Marketing
1. Time orientation	Short Term	Long Term
2. Organisational goal	Make the Sale	Retain the Customer
3. Customer Service Priority	Relatively low	Key Component

4. Customer Contact	Low to moderate	Frequent
5. Degree of Customer Commitment	Low	High
6. Buyer – Seller Interactions	Conflict & Manipulation	Co-operation & Trust
7. Source of Quality	Primarily from Production	Company-wide commitment

The hotel industry lends itself to relationship marketing. It provides a good opportunity to build up long term relationships with clients. If customers perceive their treatment is special and up to a high standard they are likely to think of the same hotel or chain of hotels on future occasions. One key indicator of the success of a hotel is the amount of repeat business it generates.

Part B

Internet marketing is a popular tool within the hotel industry. It may be used in a number of ways to gain competitive advantage in the market place:

- eMarketing – Just think of the way Airlines are making use of the internet and e-mail systems to gain competitive advantage via special offerings etc. Hotels are increasingly doing the same. These systems are increasingly being used by them to target specific customers – previous visitors and potential visitors - with special offers

- web site development – many hotels use their web sites not just to transact business but to market the various features of their hotel. (e.g. services and facilities, customer reviews, amenities in the vicinity etc.).

-
- social networking sites may be used to develop niche markets – to target specific categories of customers.

All of these features are available on a global basis at a relatively low cost per customer contact.

Part C

Market positioning considers the perceptions of the consumer about the product or service, relative to other products and services in the market. The marketer seeks to position the product so it is perceived to possess the key variables considered important by customers. Re-positioning involves moving the product away from its current position to a point that improves its market appeal. Lucozade is a product that was re-positioned from a drink for people who were feeling unwell to a sports drink.

A perceptual map may be used to identify key consumer criteria and where brands are positioned in relation to each other. Branding may form part of the drive to re-position or reinforce an existing position in the market place.

Suggested Solution 4

Part A

Mintzberg suggests, that rather than look at the functions of the manager, it is more beneficial to view the key roles that they play. He isolated ten roles common to all managers and grouped them into three major categories; interpersonal, informational and decisional.

Interpersonal Roles

More than anything else management jobs are people intensive. Most managers spend between 60% and 80% of their time in face-to-face communication with others. If management is "getting things done" through people, managers need to be good at interacting with individuals and teams. As a **Figurehead**, the manager handles ceremonial and symbolic activities for the organisation. In the **Leader** role managers motivate and encourage workers to achieve organisational objectives. They need to be able to read situations, provide direction, persuade and influence. In the **Liaison** role managers deal with others outside their units.

Informational Roles

Not only do managers spend most of their time in face-to-face contact with others, but they spend time obtaining and sharing information. Indeed, Mintzberg found managers spend a considerable amount of their time getting and sharing information with others. In this regard management can be viewed as gathering information by scanning the business environment and listening to others in face-to-face conversations, and then sharing this information with people inside and outside the organisation. In the **Monitor** role, managers scan the environment for information, actively contact others for information, and interpret how it impacts the business – in terms of opportunities and threats etc. The **Disseminator** and **Spokesperson** roles refer to the transmission of information to others who require it, inside and outside the organisation, respectively.

Decisional Roles

Time spent obtaining and sharing information is not an end in itself. The time spent obtaining information is useful if it helps in making good decisions. Managers need to balance competing interests and choose among alternatives. Through decisional roles, strategies are formulated and implemented. The **Entrepreneur** role involves the initiation of change, thinking about the future and devising ways to deal with current and future problems. The **Disturbance Handler** role involves the resolution of conflicts between individuals and teams. The **Resource Allocator** involves making decisions on how to allocate resources to meet stated objectives. The **Negotiator** role refers to the formal negotiation and bargaining activity necessary to attain appropriate outcomes for the manager's area of responsibility.

Suggested Solution 4 *(Cont'd)*

Part B

Management by Objectives (MBO) is a process whereby managers and employees jointly determine specific performance goals. These goals are periodically reviewed; rewards are allocated on the basis of progression.

Advantages	Disadvantages
Highlights what should be done in a firm to achieve organisational objectives	Specific goals also encourage individual achievement rather than promote a team focus
The process secures employee commitment to accomplishing these objectives	Specific goals may limit employees' potential and discourage efforts for continuous improvement
It may improve morale and motivation amongst employees	Frustration may result from the setting of unrealistic targets
Provides a 'language' and set of tools to communicate and co-ordinate activities efficiently	The MBO process assumes that the organisation knows its objectives. This may change in a dynamic environment

Part C

This is a hybrid structure in which two or more forms of departmentalization are used together. The matrix structure evolved over time and it endeavours to integrate departments together in a horizontal way to facilitate greater co-ordination in the use of specialist departmental skills. This may be critical for firms with multiple product portfolios in a variety of international markets. It seeks to promote cross functional working, allowing for the "calling on" of a pool of specialists to assist with product or project development and management on an ongoing basis. It suffers from the normal challenges associated with dual reporting relationship based systems and the power struggles that tend to arise therein.

                          Sales   Production Finance   HR R&D

Product or Area manager A

Product or Area manager B

Product or Area manager C

Suggested Solution 5

Part A

PESTLE analysis is a technique for analyzing the macro environment of an organization under the following headings – political, economic, socio-cultural, technological, legal and environmental considerations..

Analysis of the Political environment involves considering the impact of changes in Taxation requirements, Safety regulations, Consumer protection legislation, Parties in Government, EU Developments etc.

Consideration of the levels of demand within the economy, interest rates, foreign exchange rates, grants, inflation etc. are indicative of the economic variables to be monitored and considered.

The Socio-Cultural environment encompasses issues of a demographic nature, such as, changes in the structure of the population – age, gender, income distribution, emigration etc.; and issues of a cultural nature, such as, language, customs, religion etc.

The Technological environment includes consideration of the threats and opportunities arising from IT and scientific developments in various areas.

Organisations must be aware of the legal parameters of their markets and operating environments including issues related to employment law, contract law etc.

The environmental debate is ongoing. Increasingly organizations are developing strategies to minimize the impact their operations have on ecological systems and are developing strategies to become eco-friendly. International and domestic environmental laws must also be observed.

The macro environment refers to the external factors of a company's business environment, many of which are outside its control. Many of these dynamic and continuously-evolving variables need to be monitored.

Part B

Intangibility

Services are intangible: Unlike physical products they cannot be seen or touched before they are bought. Services are difficult to describe, to demonstrate to the buying public, or to illustrate in communications and promotional material. An organisations reputation and that of its sales people are essential to service marketing. Many factors influence the experience of a service. Buyers tend to look for signs or evidence of service quality and draw inferences about quality place, equipment, communication material, symbols and the prices they see as they encounter the service.

Inseparability

Services are purchased and consumed simultaneously. Buyer provider interaction is a special feature of services marketing. Services cannot be separated from their providers. Customers participate in and affect the transaction. It is a once off experience. The impressions created cannot be inspected like the products at the end of an assembly line.

Suggested Solution 5 *(Cont'd)*

Perishability

Services cannot be stores or inventoried. The perishability of services is generally not a problem when demand is steady. When demand fluctuates service firms may experience problems. It is difficult to synchronise supply and demand.

Heterogeneity / Variability

Because they depend on who provides them and when and where they are provided, service quality is highly variable. Many services cannot be provided by machines and therefore the human factor is of great importance in the maintenance of service quality.

There can be a great deal of variability in the output of a services organisation. This arises, as it is more difficult to establish standards for output and even harder to ensure standards are being met each time the service is being delivered. For example, employees reactions to customers may vary with their levels of tiredness and fatigue.

Part C

TV is a mass medium and is a favoured vehicle for many. It provides good market coverage as most households have televisions. In addition, it has a relatively low cost per single exposure. Further, as it combines sight, sound, and motion it has strong presentational appeal. (e.g. it allows quality advertisement creation opportunities that appeal to all of the human senses).

There are, however, many limitations associated with using televisions as an advertising medium. It requires high up front costs. Further the more time on air, the higher the costs. There is also a high level of clutter with all the channels now available to viewers. This makes it difficult to differentiate products and services, particularly when some advertisements are short fleeting exposures. Finally many viewers of recorded programmes by-pass advertisements altogether.

TV – summary of main benefits and limitations

Benefits
High reach
Low cost per contact
Quality creation opportunities

Limitations
Clutter
High cost per advertisement
Low recall
By-passing advertisement

Suggested Solution 6

Part A

A feasibility study is conducted to determine whether a project is fundamentally worthwhile. There are many areas to consider when assessing the feasibility of a project, these include its economic feasibility, its technical feasibility, and its organizational and operational feasibility. The feasibility analysis provides a high level snap shot of the potential costs and benefits of the proposed system and the technical / organisational feasibility of the project. If the results of the analysis are favourable an explicit decision is made to proceed.

There are many ways to assess the feasibility of a project. Amongst these are:

1. Economic feasibility

The main question here surrounds the costs of acquiring the system versus the benefits of having the finished system. This is generally determined using a Cost-Benefit-Analysis. All costs (tangible and intangible) and benefits (tangible and intangible) need to be considered is assessing the economic feasibility of a computer project.

Tangible costs

These include all those costs that can be predicted and measured to a fairly accurate degree. Typical examples include
- Hardware / Equipment
- Wages / salaries and consultancy fees
- Ongoing system benefits

Tangible benefits, would include

- Improved efficiency and throughput
- Reduction in errors
- Reduction in costs

Intangible costs, refer to costs that cannot be measured accurately and may always occur – some examples would include

- loss of employee morale
- disruption to the organisation

Intangible benefits would include

- gaining a competitive advantage
- improved employee morale
- faster decision making

2. Operational and Organisational feasibility

The focus here is on whether the organisation has the necessary skills/ capabilities available to actually operate the system on a day to day basis. And if not, where these can be obtained in a realistic way.

Suggested Solution 6 *(Cont'd)*

3. Technical Feasibility

The main issue here is whether the organisation is technically capable of developing/operating the system, and if not, whether the necessary technology can be developed or acquired in a feasible manner.

4. Overall Recommendation

A Feasibility Report is produced at the end of the study, with the ultimate aim of recommending the project, or otherwise. Typically it will address:

- Terms of Reference
- Description of existing systems
- Objectives of a new system
- Hardware, Software and Networking requirements
- Feasibility analysis (economic, technical, etc.)
- Development and Implementation Plan
- Overall Recommendation

Part B

Intentional Threats

There are many ways in which computer systems can be attacked, especially when extensive use is made of eCommerce. Some of the more common threats include

- Hacking

- Viruses

- Worm

- Trojan

- Spyware

- Phishing

- Denial of service

- Trap door

Anything that causes a loss of data or a corruption of data can be considered a security threat. A number of steps can be taken within a single site, ranging from limiting physical access to sensitive areas and installing complex, encrypted codes to deny entry to data to unauthorised personnel etc. Other procedures one would expect are back up procedures, disaster recovery plans, effective virus protection and password procedures.

Computer security can be considered under two general headings 1) securing the physical assets (i.e. the machines and associated hardware) and 2) securing the data. Generally data is considered the most valuable asset, as it is the most difficult to replace and has the most potential value to competitors and fraudsters.

Suggested Solution 6 *(Cont'd)*

Part C

Enterprise Resource Planning Systems (ERP)

These are systems that are cross-functional. They integrate the main core business functions. Typically this would include: HR, Accounting/Finance, Sales/Marketing, and Production/ Manufacturing (if relevant). ERP systems have grown in importance because they create an integrated view of the company and allow for improvements in efficiency. Well known companies offering "business solutions" like ERP systems are SAP and Oracle.

These systems are generally produced as "modules", so it is possible (for example) to purchase the 'HR module' and nothing else, or to purchase several available modules, depending on what you need. These are easily integrated and help improve business processes.

Suggested Solution 7

Part A

Stages in the budgetary process

The stages involved in the budgeting process are as follows:

1. Communicating details of the budget policy

   Top management must communicate the policy effects of the long-term plan to those responsible for preparing the current year's budgets.

2. Determining the key budget factor

   The key budget factor is that, which at a particular time or over a period will limit the activities of an undertaking and which is therefore taken into account in preparing budgets. In most cases it is market demand.

3. Preparation of the Sales Budget

   The importance of this activity stems from the fact that the entire budget will be based on Sales

4. Preparation of Functional Budgets

   Once the sales projections are made, the various functional budgets can be prepared.

5. Preparation of the Master Budget

   When functional budgets are completed, a projected Cash Flow Statement, Capital Expenditure, and Projected P&L and Balance Sheet can be prepared.

6. Reviews/ Negotiations and Discussion

   This involves a series of meetings and discussions, which may result in some alterations

7. Subsequent Revisions

   Once a budget is approved it is rarely changed. This only tends to happen when major developments take place.

Suggested Solution 7 *(Cont'd)*

A number of the common difficulties that can be encountered in the preparation of budgets are set out below:

  It is vitally important that the budgeting system is detailed enough to suit the size and nature of the organisation

  If the budget is not prepared in a realistic manner, it can have a negative effect on the attitudes and performance of managers and staff

  The problems of slack and padding can be difficult to eliminate. This occurs when managers overstate their expected expenses, so that having a larger than necessary budget, they will be unlikely to overspend their budget allowance

  Because the detailed budget focuses on the short term, there is a temptation to make decisions which will benefit the company in the short term but result in lost profits in the medium/ long term

  Budgets are often completed using estimates and opinions. There is therefore a degree of uncertainty involved e.g. rate of inflation, interest rates. Methods of dealing with these uncertainties must be employed particularly with the regard to the identification of the principal budget factor.

Part B

Ordinary Shares

Ordinary shareholders are members of the company holding voting rights. They own a share of the company's assets and a share of any profits earned after all prior claims have been met.

Ordinary shares or Equity, as they are termed, are a permanent source of finance. Ordinary shareholders provide seed capital to allow the business to develop and grow. There are no fixed repayment or interest charges to be paid in the case of equity. Equity also provides the owners with authority to influence policy and direction.

Equity may be raised through offers for sale, public issues, placing, tender or rights issues

Equity is generally regarded as an expensive source of finance when compared to loan finance, as the dividends to equity holders unlike loan interest are not tax deductible. Another disadvantage of equity is the potential for change in the balance of control between existing and new shareholders.

Suggested Solution 7 *(Cont'd)*

Preference Shares

Preference shareholders have the right to a fixed dividend rate which is paid before anything can be distributed to ordinary shareholders. They may be cumulative or non-cumulative.   With non-cumulative preference shares, when profits are poor and no preference dividend is paid in the year, the dividend is foregone forever. In the case of cumulative preference shares previously unpaid dividends can be recouped in future years. In order to make the preference shares more attractive, they may be entitled to some further participation in the profits over and above their fixed rate of dividend, after a certain rate of dividend has been paid to the ordinary shareholders. This type of preference share is called a participating preference share. Preference shares may also carry the right to priority with regard to repayment of capital in the event of a company being wound up.   A company may issue redeemable preference shares which it can redeem at some future date. In setting the dividend rate applicable to preference shares attention should be given to current and anticipated future interest rates. Unlike interest payments, preference dividends are not allowable deductions for taxation purposes. For this reason they hold few attractions for the majority of companies and tend not to be used as a source of finance

Debentures:

A debenture is a written acknowledgement of indebtedness by a company. Interest is paid at a fixed rate, normally at half- yearly intervals. Debentures are not part of the share capital of a company and debenture holders are not members of the company. A debenture holder is a creditor of the company. His interest is a debt of the company, payable irrespective of whether there are profits or not.

Debentures may be redeemable or irredeemable. Redeemable debentures maybe an appropriate source of finance where a company's needs are temporary.   Redeemable debentures must be redeemed by a fixed date or within a given time period. Irredeemable debentures are repayable only in the event of some specified contingency, such as the winding-up of a company or default in the payment of interest.

Debentures may be secured or unsecured. Most debentures are secured by a charge on the assets of the company. This charge may be fixed or floating. In the case of a fixed charge, the security relates specifically to a particular asset or group of assets.   The company is not permitted to dispose of the asset or assets without providing equivalent security, or without the prior approval of the debenture holders.

The terms of the debenture and the rights and responsibilities of the parties involved are set out in the Debenture Trust Deed. Matters outlined in this deed must be complied with by the company.   The Debenture Trust Deed will contain, amongst others, the following:-

  (1)   restrictions on additional lending
  (2)   matters pertaining to the disposal of assets on which the loan is secured
  (3)   insurance relating to the property on which the loan is secured
  (4)   provisions relating to the retention of title deeds of properties on which the loan
          is secured

Suggested Solution 7 *(Cont'd)*

Part C

Gross margin – is the relationship of gross profit to sales. It calculated by

Gross Margin / Sales * 100.

It is a measure of the profitability earned on each €/£ of sales.

Acid test ratio

Compares the current assets with the current liabilities but it excludes stocks from current assets.

Current Assets less Stock : Current Liabilities

It reflects the company's capacity to pay its liabilities as they arise.

1st Year Examination: August 2011

Business Management

Examiner's Report

General Comment

Overall performance was satisfactory in this autumn sitting.

	Autumn 2010	Autumn 2010	Autumn 2009
Number of candidates	198	303	223
% obtaining 50 or more	75%	74%	62%
Average marks	54	51	50

Question	1	2	3	4	5	6	7
No. Attempting	194	105	112	62	162	77	73
Marks available	25	25	25	25	25	25	25
Average marks	15.54	12.12	13.27	10.95	13.67	13.03	13.58

Question 1

This was a compulsory question and attempted by practically all candidates. Overall it was well answered

Part (a) Answers to this part were very good with most candidates supporting their answers with examples and graphs.

Part (b) Very well answered with most candidates providing interesting examples, situating their place on the PLC and supporting this PLC positioning with good reasoned arguments.

Part (c) A good number of candidates were also able to critique the model as a marketing tool

Question 2

Part (a) was well answered by the majority of candidates. A wide range of skills were identified by candidates.

Part (b) was well answered with most students providing a good description of the theory. A number of candidates failed to evaluate its merits and limitations.

Part (c) Answers to this part were mixed.

Question 3

Part (a) was a little disappointing particularly with regard to the difference between relationship marketing and transaction marketing.

Part (b) was very well answered. A number of candidates failed however to relate their answers to the scenario presented.

Part (c) Answers to this part were generally good.

Question 4

Part (a) was very well answered. A small number of candidates clearly had not heard of Mintzberg.

Part (b) Answers to this part were good if a little brief.

Part (c) Most answers to this part were good. A number of candidates struggled to explain the concept in a clear manner.

Question 5

A very popular question

Part (a) was very well answered.

Part (b) was a little disappointing with a number of candidates confusing it with the extended marketing mix for services.

Question 6

Part (a) Answers were generally good to this part. Although a small number resorted to guesswork

Part (b) Answers to this part were good.

Part (c) Most candidates did well in this part although there were a few brave attempts at completing the acronym.

Question 7

Part (a) Answers were very good to this part.

Part (b) Answers to this part were a little short and students missed an opportunity to score higher.

Part (c) Whilst there were many good answers to this part, it was still disappointing to see that many students did not understand these ratios.