



**BUSINESS AND ORGANISATION  
STANDARD LEVEL  
PAPER 2**

Friday 5 May 2000 (morning)

1 hour 45 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- Answer four questions.

1. John Bite owner of a retail store has recorded the items below during the year ending December 31, 1999.

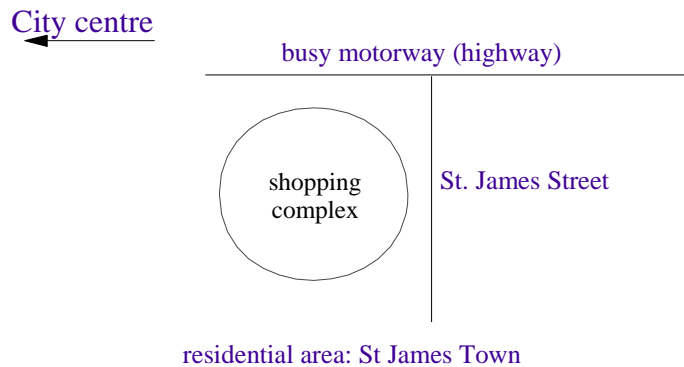
Item	Value (\$ 000s)
Stock	40
Vehicles	80
Building	200
Sales	100
Owner's equity	
Accounts payable (creditors)	20
Accounts receivable (debtors)	15
Cost of goods sold	60
Long term loan	200
Bank money (money in a bank account)	5
Expenses	20

The current assets ratio for 1998 was 1:1 and the asset test ratio was 0.5 :1.

From the above figures:

- (a) Produce the Balance Sheet for the year ending December 1999 and calculate the owner's equity. *[6 marks]*
- (b) Identify the **two** possible elements that make up the owner's equity. *[2 marks]*
- (c) Prepare an Income Statement (Trading and Profit and Loss Account). *[3 marks]*
- (d) Calculate the current assets ratio and acid ratio for 1999. *[2 marks]*
- (e) Explain what these ratios measure and show why both are important to the firm. *[4 marks]*
- (f) Compare the 1998 ratios to the 1999 ratios and write a comment on your findings. *[3 marks]*

2. Eddet plc (Inc) is considering the feasibility of building a large shopping complex in a residential area. The diagram below shows where the complex will be located.



St James Town is located 15 minutes away from the city centre. It is a quiet town and the residents believe that the shopping complex will alter their environment. They have read in the newspapers that the complex will have a large entertainment sector with 14 theatres (cinemas), a bowling alley with 40 lines, a large eating plaza with 15 different fast food restaurants and a children's play park. It will also host a hypermarket (large supermarket) that will be open 24 hours a day, and 200 different retail outlets.

The local government office is currently dealing with the complaints of a large number of residents. After a meeting with the residents the firm has agreed to look at the concerns and offered to examine ways of compensating for the inconveniences caused.

- (a) Provide **three** reasons to explain why out of town shopping complexes are becoming so popular? [4 marks]
- (b) Prepare a list of at least **four** complaints that the residents might present to the local government. [6 marks]
- (c) Explain the role of the public sector in determining the location of firms. [3 marks]
- (d) To overcome local opposition Eddet plc is preparing a publication that lists all the benefits it will bring to the area. Choose **two** of these benefits and explain how they will come about. [4 marks]
- (e) Suggest **two** ways in which the firm could compensate the residents for any inconvenience caused. [3 marks]

3. Martínez and Pérez S.A. (Ltd.) is a Latin American firm that makes men's shirts with imported material from an Asian country. Last month, due to problems in Asia, the price of material went up by 50%. The price increase is considered to be a long lasting one, so the General Manager of Martínez & Pérez knows that the firm needs to act quickly to counteract the effect of the increase in the price of the input. One alternative is to cut the high labour costs. The General Manager has written to the work force (which is organised in a trade union) offering the following alternatives:

- dismiss 20 workers
- retain all workers but pay them less for working the same number of days
- retain all workers but cut the number of days worked by each worker and only pay them for the days they work

- (a) What is a trade union? *[2 marks]*
- (b) Assess each of the alternatives presented to the trade union and show how the union will react to each. *[6 marks]*
- (c) Consider **two** other alternative strategies not related to labour costs: explain the choices and assess the advantages and disadvantages of each. *[8 marks]*
- (d) Under what circumstances are firms liquidated? *[4 marks]*

4. The Board of Directors of the firm Day News (a firm which manufactures newspaper) has recently sent its four senior managers on a training course to help find solutions for their problems. They complain that workers are not motivated and that they cannot achieve short-term consensus for any change they propose. At the training course, they were told the following:

- mission statements help different people in a firm share a vision
- management should introduce change in spite of experiencing resistance
- one of the main cause of conflict in firms is poor communication

- (a) What is a mission statement? *[2 marks]*
- (b) Show how a mission statement might help to avoid conflict in the long run. *[3 marks]*
- (c) (i) Explain why workers for Day News might be scared of change. *[4 marks]*
- (ii) What could the four senior managers do to minimise the fear that their employees show? *[4 marks]*
- (d) Give **two** ways in which communications could be improved at Day News? *[2 marks]*
- (e) Give **two** reasons to explain the cause of the workers' lack of motivation and give a possible solution for each **one**. *[5 marks]*

5. The firm Jugue–T S.A. (Ltd) used to be the market leader of a Less Developed Country in Africa. The government implemented protectionist policies, with high taxes on imports making it easier for Jugue–T to sell lots of toys at high prices. Towards the end of 1999 the government changed its policy and opened its markets to the world. Since then the Jugue–T has had huge problems surviving the inflow of cheap Asian toys.
- (a) Explain how the government’s protectionist policies benefited Jugue–T. *[4 marks]*
- (b) Show how the new open policies will affect
- (i) the buyers of the product *[1 mark]*
  - (ii) the suppliers of raw materials to Jugue–T *[1 mark]*
  - (iii) employment in the African LDC *[1 mark]*
  - (iv) the Balance of Payment of the African country. *[1 mark]*
- (c) Give reasons to explain why the Asian toys are so much cheaper than the ones made in the African LDC. *[6 marks]*
- (d) To survive Jugue–T is considering working together with the Asian supplier of the finished product, becoming a wholesale distributor of toys. Analyse the implications for the firm of carrying out this policy. *[6 marks]*

6. Pan Bam Ltd is a bread making medium sized firm. It has a manufacturing plant in the outskirts of the capital, and from there it distributes to all the supermarkets within a 400 mile radius (640 km). The distribution is in the hands of an independent transport firm. Currently Pan Bam is undergoing changes and its Board of Directors is considering different investment proposals. The three proposals are:

1. To buy 5 trucks (lorries) and therefore become independent of the distributing firm.
2. To open up a second branch in the second most important city of the country, located 1000km away from the capital and where people speak a different dialect.
3. To buy a new machine to make different (yet bread related) products.

The proposals are to be financed in the following manner:

1. leasing the vehicles;
2. issuing more shares;
3. a medium term loan from a bank.

- (a) Assess the advantages and disadvantages of financing each proposal in the manner described above. *[6 marks]*
- (b) Consider the advantages and disadvantages of changing the way in which the bread is distributed. *[5 marks]*
- (c) What problems might Pan Bam face if it implements proposal number 2? *[5 marks]*
- (d) If you were a bank manager and had to decide whether to give Pan Bam the loan or not, what additional information would you need to analyse before you decide? Give reasons for your answer. *[4 marks]*

7. The Spotty Ltd firm is a large manufacturer of cleaning products. It sells the most popular dish detergent in the country (called Spot Less) but the market for detergents is very competitive and the Production Manager fears that the detergent has reached maturity and its market share will soon start to decrease. Since the board of directors wants sales to increase by 10% this year, the General Manager of Spotty has decided to employ a marketing consultant to design a strategy that will satisfy the new objectives.
- (a) Draw a typical product life cycle showing the various stages of the life of Spot Less. *[4 marks]*
  - (b) Explain the meaning of market share and how it is measured. *[2 marks]*
  - (c) As the marketing consultant prepare a marketing plan to extend the life cycle of the detergent Spot Less. *[8 marks]*
  - (d) The General Manager is pessimistic about the possibility of extending the life of the existing detergent. He therefore wants to introduce a new product. Assess the advantages and disadvantages of introducing the new product under the same brand of the dish detergent (family branding), and contrast with the advantages and disadvantages of using a totally new brand (individual branding). *[6 marks]*



8. Five friends identified a need to feed hungry children in the area where they lived. They held a meeting with all the people they knew and invited them to sponsor their project. They managed to get 200 sponsors, each contributing \$ 20 per month to their feeding organisation. One of the friends owned an old warehouse and that is where the dining room was set up. The community donated all the stoves, refrigerators, utensils, tables and chairs.

They now feed 50 children per day (one meal each). The friends have calculated that each meal has a cost of \$ 2 and that on a monthly basis they have to spend \$ 50 on electricity, \$ 50 on gas, and another \$ 200 on the wages of an employee who cleans after the meal is over. The five friends work on a voluntary basis.

Some people have told them that they are running an NGO (non-governmental organisation) and they have also been told that the cost that they are incurring to feed each child is too high.

- (a) Calculate the total costs of a 30 day month of running the NGO. What is the maximum number of children that could be fed by the organisation with the funds that are now raised, without incurring a loss. *[6 marks]*
  - (b) Suggest ways in which the NGO can cut costs of feeding each child. *[4 marks]*
  - (c) NGOs are non-profit seeking. Yet they make a surplus of revenue over costs. For what other purposes could the NGO use its surplus? *[2 marks]*
  - (d) Give reasons to explain why NGOs are growing in number and becoming an important sector of society. *[3 marks]*
  - (e) The friends are willing to expand, and open similar dining rooms in other neighbourhoods. To convince sponsors to donate funds for their projects, they have to show that their NGO is efficient. Explain how firms prove that they are efficient, and show the differences that might exist between the indicators used in profit seeking firms and those in non-profit seeking firms. *[5 marks]*
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