

MARKSCHEME

May 2000

BUSINESS AND ORGANISATION

Standard Level

Paper 2

1. (a) Produce the Balance Sheet for the year ending December 1931, 1999 and calculate the owner's equity.

[6 marks]

Balance Sheet

(\$ 000s)

Fixed Assets:

Building	200
Vehicles	<u>80</u>
	280

Current Assets:

Stock	40
Debtors	15
Bank money	<u>5</u>
	60

Total Assets 340

Long term liabilities:

Long term bank loan 200

Current Liabilities

Creditors 20

Owner's equity 120

Total Liabilities: 340

[6-5 marks] The Balance Sheet has an appropriate layout and the items are in the correct place. The Balance Sheet balances. The owner's equity is properly calculated.

[4-3 marks] The majority of the items are properly identified as assets or liabilities. There might be a minor mistake.

[2 marks] There are errors that show lack of understanding of some items. The layout is poor and confusing, or it only shows the totals.

[1 mark] Many items are misplaced. The Balance Sheet doesn't balance.

- (b) Identify the *two* possible elements that make up the owner's equity.

[2 marks]

The possible components of the owner's equity are retained profits (ploughed back, reinvested) and capital (accept any logical expression for a source of capital). [1 mark] each.

- (c) **Prepare an Income Statement (Profit and Loss Account).** **[3 marks]**

(000's)

Sales	100
Less Cost of Goods Sold	<u>60</u>
Gross profit	40
Less expenses	<u>20</u>
Net profit	20

[3 marks] The net profit is correctly calculated. No mistakes.

[2 marks] One mistake.

[1 mark] Only an idea of what an Income Statement is present.

- (d) **Calculate the current assets ratio and the acid test ratio for 1999.** **[2 marks]**

Current ratio: 3:1
Acid test ratio: 1:1

[1 mark] each.

- (e) **Explain what these ratios measure and show their importance to the firm.** **[4 marks]**

The current ratio measures the proportion of current assets to current liabilities, and it is therefore important to see the capacity the firm has to pay its short term debts with its existing very liquid assets - assuming the stock they hold will find buyers.

The asset test ratio measures the same thing, but it subtracts stock from current assets, to look at the worst scenario and the capacity of the firm to pay its debts even if existing stock is not sold.

[4 marks] for a clear explanation, distinction between the two ratios and the importance to the firm related to liquidity position.

[2-3 marks] if either importance or definitions are incomplete or incorrect.

[1 mark] if only one of the two ratios is known and importance is not explained.

- (f) **Compare the 1998 ratios to the 1999 ratios and write a comment on your findings.**

[3 marks]

Since an acceptable current ratio is considered to be 2:1 and an acid test ratio 1:1, the firm was not performing at the expected safety levels in 1998. In 1999 the situation has been corrected although the current ratio is a bit more than what it needs to be and the firm could be holding too much stock.

[3 marks] The answer is supported by the correct ratios and the improvement is identified.

[2 marks] Either one or the other of the ratios is not analysed properly but the improvement is acknowledged.

[1 mark] The improvement in the situation is good.

2. (a) Provide *three* reasons to explain why out of town shopping complexes are becoming so popular?

[4 marks]

Possible reasons:

For the buyers:

- They are safe places for entertainment.
- Cluster of shops: it is economical (in terms of time) to go to a shopping complex.
- Provides entertainment for the entire family.
- Parking places for the cars (safety).
- Provides protection from rain, snow, heat *etc.*

For the sellers;

- Higher density of people go past the shop windows.
- Shared overheads.
- Security.
- Longer hours.

Candidates will come up with their own suggestions. Award points for any logical reason given.

[4-3 marks] Three to five solid reasons properly explained.

[2 marks] Only two reasons given. No arguments.

[1 mark] One reason.

- (b) Prepare a list of complaints that the residents might present to the local government.

[6 marks]

The list could include:

- Increased traffic.
- Traffic jams to get onto the high way (Higher cost in time for them).
- Fall in the real estate values (*i.e.* residents will see their capital diminished).
- Noise pollution (and of different types).
- Crowds of young people attracted to the place.
- In general, accept any idea of public cost that will interfere with the quiet and peace of the residential area.

[6-5 marks] A list that includes four or five of the above.

[4-3 marks] A list with just a couple of ideas or just ideas without any evidence of complaint.

[2-1 marks] A poor answer, with no evidence of knowledge of social costs.

- (c) **Explain the role of the public sector in determining the location of firms.** [3 marks]

The public sector exists mainly for the purpose of increasing the welfare of citizens: it has to oversee that in their profit seeking motive, firms don't cause public costs. It has to protect the rights of citizens who have bought property in areas that are residential (as defined by the government itself).

[3 marks] (Award full marks if idea of cost of benefit is present: if public sector is seen as defending citizen's rights above the rights of profit seeking firms.)

(Award [2 marks] if there is evidence of knowledge of public sector as a defendant of welfare.)

(Award only [1 mark] if a simple but unrelated explanation is given of public sector.)

- (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]

The benefits could be:

- More employment;
- Unemployed off the streets;
- More income circulating in the area: wealth;
- Entertainment for everybody: a nice place for the family;
- Greater security.

[4 marks] Two benefits and a clear understanding of how they will come about.

[3-2 marks] The benefits are listed but there is not explanation of how they will take place.

[1 mark] Only one benefit is identified. No explanation given.

- (e) **Suggest two ways in which the firm could compensate the residents for any inconveniences caused.** [3 marks]

Possible ways:

- Building new roads/bridges/ anything the community needs/ wants;
- Buying their property at the going market value (before drop in value);
- Employing residents first.

This is a very open question. *(Award [1 mark] for each reasonable form of compensation and the third mark is both suggestions are interesting and suitable.)*

3. (a) What is a trade union? [2 marks]

A group of workers who have sought and obtained representation to bargain with employers to obtain better pay or better working conditions for its members or bargains to defend their members' rights.

(Award [2 marks] for a complete answer.)

(Award [1 mark] for evidence of knowledge of what a union is.)

(b) Assess each of the alternatives presented to the trade union and show how the union will react to each. [6 marks]

1. The union will refuse to consider it. They cannot accept a measure that will put their own members out in the street. Unless workers who are dismissed accept to leave in exchange for a reasonable redundancy payment. Union might consider consulting members on this issue, especially the ones with more seniority in the firm so that they collect a higher redundancy.
2. Cutting wages means that workers all work the same number of hours but for less money. The only benefit is that they will not be losing their employment. Union should resist this as well since the union fees will now seem relatively more expensive and members might want to leave the union.
3. Although it is not the same as dismissal the union leaders might be reluctant since it means everybody earns less. The benefit over number 1 is that nobody loses his or her job, but the cost is high: the entire workforce earns less. The benefit over number 2 is that workers will be able to derive some utility from a day off (they could even find alternative employment that day). With number 2 workers work the same for less pay.

(Award [2 marks] for each properly assessed alternative.)

(Discount [1 mark] if any of the alternatives are only partially analysed or discount [2 marks] if an alternative is ignored.)

- (c) **Consider *two* other alternative strategies not related to labour costs: explain the choices and assess the advantages and disadvantages of each.** **[8 marks]**

Possible alternatives are:

- Find a new supplier of material. If the material goes up world wide then the price of shirts should increase everywhere as well.
- Vertical integration: buy out a supplier of material so as to be independent from price swings in the market of material.
- Become partners with a firm that makes cheaper shirts abroad and become importers of shirts instead of manufacturers.
- Try making a related product using a different material: cotton instead of synthetic, or vice versa.

Candidates might come up with a great variety of strategies. Recognise them as long as they are consistent with the business world!!

[8–7 marks] (Award full marks for two strategies with advantages and disadvantages properly identified for each.)

[6–5 marks] Two strategies, advantages and disadvantages not clearly stated.

[4–3 marks] Either two strategies and a very poor assessment of advantages and disadvantages or one strategy properly analysed.

[2–1 marks] A weak answer. Strategies not viable and/or absurd.

- (d) **Under what circumstances are firms liquidated?** **[4 marks]**

Firms are liquidated when they have run at a loss for some time, or when their liabilities exceed assets, or when the capital of the firm has been eaten up by losses, or when the creditors ask for its liquidation to collect some of their debt. A firm can also go into liquidation if the owners decide to leave that line of business, sell all the assets to the highest bidder and devote their capital to whatever else.

[4–3 marks] Clear knowledge of liquidation is shown.

[2–1 marks] Knows what liquidation is but all the possibilities are not contemplated.

4. (a) **What is a mission statement?**

[2 marks]

The overall philosophy of an organisation that seeks to guide workers (managers/employees) in their everyday actions. The more specific objectives of the firm can be deduced from a mission statement.

[2 marks] for an explanation that shows awareness of what mission statement is.

[1 mark] for an educated guess.

(b) **Show how a mission statement might help to avoid conflict in the long run.**

[3 marks]

When people in a firm share a mission they can put their short run conflicts aside for the sake of a shared long run vision. Examples might be given to illustrate this answer, showing conflict in the short run and harmony in the longer run.

[3 marks] for an answer that shows the difference between short and long run and shows the solution of short term conflict in the long run.

[2–1 marks] A more general answer without a clear distinction between short and long run.

- (c) (i) **Explain why workers for Day News might be scared of change.** [4 marks]

People are scared of change because:

- Change is threatening;
- People like safety (Maslow);
- People like to economise in their energy and change comes about with a lot of hard work;
- Admitting the need for change implies accepting that what we were doing in the past was wrong.

[4–3 marks] for two, three reasons that explain fear well.

[2–1 marks] for one or two reasons not very accurately related to issue.

- (ii) **What could the four senior managers do to minimise the fear that their employees show?** [4 marks]

The senior managers could:

- Make the workers participate in the decision making process that will be necessary to implement the change;
- Communicate properly the need for change;
- Show clearly how the change is supposed to bring benefits to the firm and hence the workers themselves;
- Show the negative consequences of not introducing the change (not remaining competitive, for example).

[4–3 marks] for two or three sensible ideas.

[2–1 marks] for relatively inaccurate or far-fetched ideas.

- (d) **Give two ways in which communications could be improved at Day News.** [2 marks]

The possible ideas are:

- Early morning briefing with entire staff to share the news of the day;
- Have all the relevant staff connected by email and communicate every piece of news in that manner;
- Assemblies;
- Communication board in a very visual place;
- Loudspeakers to make announcements as necessary.

Candidates can come up with other ideas.

(Award [1 mark] for each relevant suggestion.)

- (e) Give *two* reasons to explain the cause of the workers' lack of motivation and give a possible solution to each *one*.

[5 marks]

Possible reason for lack of motivation:

- Low pay, no perks;
- Boredom: the task is monotonous;
- Flat organisations: no possibility of progress;
- Difficult to socialise with people in the firm.

In the same order, possible solutions are:

- More pay (productivity agreements, profit sharing, more perks);
- Job rotation, job enlargement;
- Share the decision making process; allow for personal progress;
- Organise parties, football matches, *etc.*

Candidates might come up with many more reasons to explain lack of motivation. Accept any reasonable ones.

[5 marks] Two reasons with reasonable solutions.

[4–3 marks] Two reasons, solutions not very consistent with problem.

[2–1 marks] One reason with a good solution or two reasons and no solutions.

5. (a) Explain how the government's protectionist policies benefited Jugue-T. [4 marks]

Protectionism benefits domestic firms:

- Limiting their competition;
- Making their market larger and more captive;
- Allowing them to charge higher prices and sell the same products for longer periods of time.

[4 marks] Two relevant effects of protectionism are properly explained.

[3–2 marks] Only one effect explained in some detail.

[1 mark] Poor understanding of what protectionism is becomes evident in the answer.

(b) Show how the new open policies will affect

- (i) the buyers;** *[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]*

- (i) cheaper products for the buyers;
- (ii) suppliers will find it difficult to survive;
- (iii) employment will be affected negatively.
- (iv) the Balance of Payment will deteriorate (more imports).

(Award [1 mark] per correct answer.)

(c) Give reasons to explain why the Asian toys are so much cheaper than the ones made in the African LDC. [6 marks]

- Cheap labour;
- Higher productivity of labour;
- A more qualified workforce that can operate more sophisticated machines;
- More capital invested in toy manufacturers in Asia, since market is bigger;
- Cheaper raw materials also made in the area;
- Maybe the Asian firm is subsidised by government.

Candidate might also consider why African country is more expensive or less competitive (mostly the opposite of the above list).

[6–5 marks] Two or three suitable and intelligent reasons given.

[4–3 marks] One or two reasons chosen.

[2–1 marks] Only one reason, not properly linked to costs.

- (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 that carrying out this policy will have on the firm.**

[6 marks]

Possible implications:

- Closing down the manufacturing plant;
- Dismissing a large number of blue collar workers;
- Hiring and training staff to import and sale the toys;
- Might need a different channel of distribution;
- Loss of firm's identity (products sold are not their own any more).

[6–5 marks] for three or four implications properly explained.

[4–3 marks] for two or three implications not very well explained or related..

[1 mark] for one implication, a very vague answer.

6. (a) Assess the advantages and disadvantages of financing each proposal in the manner described above.

[6 marks]

- (1) Advantages of leasing the trucks or lorries: not owned by Pan Bam, so whatever happens to the trucks is covered but leasing firm. Vehicles immediately recovered by insurers. No need for collateral security since the firm is not asking for a loan - the vehicles can be Disadvantages: leasing is very expensive.
- (2) Advantages of issuing more shares: No creditors, no collateral, the new shareholders are owners and do not have the right to sue or demand.
- (3) Advantages of medium term loan form a bank: Cheaper than other forms of finance for the machines. Bankers are interested in lending money to firms which are going to invest in machines that will increase revenue.

[6–5 marks] The three proposals are properly explained and assessed.

[4–3 marks] One of the forms of finance not properly assessed.

[2–1 marks] Only one is properly assessed or only the advantages are considered for one or two forms of finance.

(b) Consider the advantages and disadvantages of changing the way in which the bread is distributed.

[5 marks]

Advantages: Vertical integration which can improve delivery quality: be there on time with the bread in the right condition, the firm can become responsible even for the placing of the bread on the shelves.

Disadvantages: The gains might not compensate for the increased costs of leasing the trucks. Trucks might be underutilised at times.

[5–4 marks] Both pros and cons are included and described.

[3–2 marks] Superficial and incomplete answer.

[1 mark] Only one side is looked at.

- (c) **Which problems might Pan Bam face if it implements proposal number 2?**

[5 marks]

Proposal number 2 will bring about problems of communication, not only because of the different dialect but because of the distance between the two plants. It will be different to co-ordinate efforts between the two manufacturing plants, to ensure that standards are maintained and are the same in both places.

[4-3 marks] A complete answer that sees the difficulties of communications both of language and of distance.

[2-1 marks] A partial answer that sees either distance or language problems.

- (d) **If you were the 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]

A Bank Manager will want to see final documents (Profit and Loss account and Balance Sheet) and it would want to see a cash flow. The banker needs to analyse the potential capacity of the firm to pay back for the machine. It needs to see financial records and credit standing of the firm.

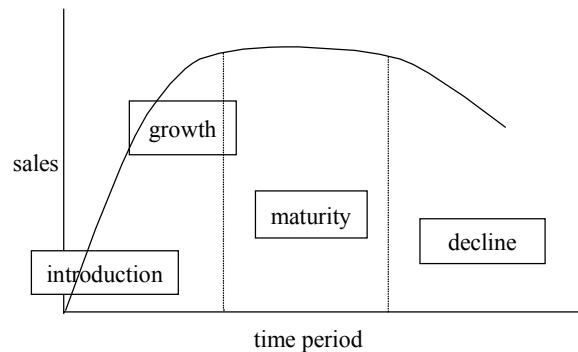
[4 marks] for a complete answer, clearly including cash flow predictions with reasons.

[3 marks] Includes a few but not all the documents that the banker will want to see.

[2-1 marks] A vague answer.

7. (a) **Draw a typical product life cycle showing the various stages of the life of Spot Less.**

[4 marks]



[4 marks] for a properly drawn graph, which includes all the stages.

[3–2 marks] Either draws the life cycle inaccurately or draws graph well but forgets a stage.

[1 mark] Only the idea a life cycle is present.

- (b) **Explain the meaning of market share and show how it is measured.**

[2 marks]

Market share is the percentage of total sales that a firm controls in a market. It is measured in sales.

- (c) **As the marketing consultant prepare a marketing plan to extend the life cycle of the detergent Spot-Less.**

[8 marks]

The marketing plan should include changes in the different elements of the marketing mix:

Promotion: A new advertising campaign.

Product: Different possibilities: maybe different size bottles, different colours for the detergent, different smells, or different texture (additional hands softener).

Price: Reduce, keep the same, give discounts for special promotions (detergent and soap).

Packaging; New design for Spot Less.

[8–7 marks] Any plan that includes four elements or more should be accepted and given full marks if it is creative and consistent. Deduct marks as the plan loses elements and consistency.

[6–5 marks] Considers three elements.

[4–3 marks] Considers only two elements.

[2–1 marks] If only one element is considered.

- (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 pros and cons of introducing the new product under the same brand of the dish detergent (family branding) and contrast with the pros and cons of using a totally new brand (individual branding).**

[6 marks]

Family branding:

Pros:

- If brand is successful it might guarantee the success of the new product.
- It is cheaper.
- It increases the overall prestige of the firm (more products in the market with one same brand).

Cons:

- If the new product is not successful the original brand might suffer (pitchfork effect).
- The life of one product is tied to the old one and therefore to its life cycle.

Individual branding:

Pros:

- Product is on its own and if successful can increase sales a lot more than as family branding.
- Can conquer another segment of the market.

Cons:

- It is difficult, costly to come up with new and successful brands.
- Individual brands are expensive.

[5–6 marks] for a complete and accurate comparison.

[3–4 marks] for a partial answer that does not consider both pros and cons of both types of branding.

[2–1 marks] for a superficial distinction of the two types of branding.

8. (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]

Fixed costs: \$ 300
Variable costs: \$ 3000 ($\$ 2 \times 50 \times 300$ days)
Total costs: \$ 3300

[3 marks] if the above is accurately calculated.

Inflow: $\$ 20 \times 200 = \$ 4000$
Fixed costs: \$ 300
Inflow – Fixed costs = $\$ 3700 \div \$ 2 = 1850 \div 30$ days = 61.6 meals
The correct answer is 11 extra children. (61 – 50)

[3 mark] if the above is accurately calculated.

(Award [6 marks] if both calculations are correct.)

Deduct points for inaccuracies.

Do not penalise twice: if the mistake is carried forward, but the new calculation is correct, accept it.

- (b) Suggest ways in which the NGO can cut costs of feeding each child.

[4 marks]

NGO can buy greater bulk.
Find sponsors to donate food products.
Get another volunteer to clean after the meals.
Reference to economies of scale are welcome (marketing economies).

(Award [4 marks] if idea of economies of scale is present and there are alternative solutions.)

Deduct marks as the answer gets narrower and limited.

- (c) NGOs are non-profit seeking. Yet they can make a surplus of revenue over costs. For what other purposes could the NGO use its surplus?

[2 marks]

It could definitely grow. It could save and rent new premises, growing in a horizontal manner or it could diversify and offer other service like sleeping quarters for the homeless. It should consider survival and prestige, to satisfy the sponsors.

Answer [1 or 2 marks] depending on whether candidate shows knowledge of different purposes.

- (d) **Give reasons to explain why NGOs are growing in number and becoming an important sector of society.**

[3 marks]

Candidates should appreciate the lack of capacity that the public sector has to deal with these issues effectively and efficiently. The private sector does not find enough profit to invest in the field.

(Award [3 marks] for answers that show that both private/profit seeking sector and public sector are incapable of dealing with this issue.)

(Award [1 or 2 marks] if at least one of the two sectors is identified as failing to deal with it.)

- (e) **The friends are willing to expand, and open similar dining rooms in other neighbourhoods. To convince sponsor to donate funds for their project, they have to show that their NGO is efficient. Explain how firms prove their efficiency and show the differences that might exist between the indicators used in profit seeking firms and those used in non profit seeking ones.**

[5 marks]

A firm could be considered efficient in different ways:

For its capacity to make profits: Profit ÷ sales; Profit ÷ capital employed

For its size: market share

For its productivity: high output for unit of input.

A service and non profit seeking firm will have a difficult time measuring any of the above indicators. The friends could show that their costs of feeding each child are low; they could measure the increases in weight and health of the children fed.

(Award [4-5 marks] if a variety of efficiency indices are shown for the profit seeking firms and candidate identifies difficulties that arise for service firms.)

(Award [3-2 marks] if only one side is shown (either the profit seeking or the non profit seeking one).)

(Award only [1 mark] if concept of efficiency is not present.)
