



**BUSINESS AND ORGANISATION  
STANDARD LEVEL  
PAPER 1**

Tuesday 22 May 2001 (afternoon)

1 hour 45 minutes

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**INSTRUCTIONS TO CANDIDATES**

- Do not open this examination paper until instructed to do so.
- Read the case study carefully and then answer all the questions.

**CASE STUDY**

**FOREMOST**

5 Foremost is a family run business, which specialises in refurbishing restaurants. It was started by Mike Collinson after he was made redundant from Apex, a brewery where he worked as a sales manager. Mike’s wife, Stella Collinson had always been interested in interior design and trained as a furniture upholsterer and curtain maker. They decided to open Foremost, as it would combine Mike’s knowledge of the brewery business and Stella’s furnishing skills. Over ten years the business grew and now has a good reputation for quality and customer service. Foremost produces designs for restaurants, buys old furniture at auctions to renovate, and produces its own furniture when needed.

10 Foremost is located in an old building, which is no longer suitable for its needs. Mike and Stella want to move to purpose built design and production premises on a modern industrial site. They have several sites in mind, but have not yet made a decision which site is suitable. 2000 was a particularly successful year for Foremost and the business has \$200,000 to reinvest. Forecast expenses and sales for December 2000 to June 2001 and additional information is as follows:

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Closing Cash Balance	60 000	from December 2000
Capital investment	200 000	invested in January 2001
Purchase of premises	180 000	paid in March
Advertising	12 000	paid annually in March
Wages	60 000	per month
Telephone	9 000	paid in three equal instalments in January, April and June
Electricity	24 000	paid in three equal instalments in January, April and June
Rates	5 000	paid annually in March
Insurance	9 000	paid annually in March
Motor running costs	4 000	per month
<u>Sales and Purchase</u>		
	Sales	Purchases
	\$	\$
December	100 000	60 000
January	100 000	100 000
February	200 000	150 000
March	150 000	120 000
April	250 000	200 000
May	200 000	150 000
June	300 000	260 000
80% of sales are received as cash in the same month as the sales take place, and 20% one month in arrears.		
50% of purchases are paid for in cash in the same month as the purchase takes place, and 50% one month later.		

- Most orders come from personal recommendation or from advertisements in trade magazines.
- 15 Currently Foremost refurbish restaurants to a unique and individual style, after negotiating their own contracts. Stella Collinson has recently negotiated a contract with a large restaurant chain, Big Bucks. This would benefit Foremost, as it would ensure the future security of the business. However, part of the contract states that Foremost must refurbish restaurants exclusively for Big Bucks, to a standard style. This would lead to lower unit costs, but Mike
- 20 Collinson is worried that Foremost would lose its reputation for innovative design. Stella Collinson, is worried that she will get bored, as she will not be able to develop her own designs. Mike and Stella are also worried that their profit margins may be lowered, if Big Bucks has a cashflow problem in the future. Stella is also investigating international expansion, as there is an increasing interest in their work from businesses overseas.
- 25 As Foremost grows Mike Collinson employs other staff as required from Apex, the brewery where he had worked. This causes problems as those staff do not have the necessary production skills, and therefore need training. Foremost recently received an award, recognising its investment in training and developing staff, raising their standards and improving quality. This was achieved by subcontracting training to a training and
- 30 development company. Mike Collinson, however, believes that Foremost should now recruit its own training manager.

1. Explain **three** factors that Foremost will need to take into account when deciding upon the location of their new design and production premises. *[6 marks]*
  
  2. What particular problems do small businesses, such as Foremost, experience if they decide to trade overseas? *[6 marks]*
  
  3. (a) Produce a cashflow budget for Foremost for January to June 2001. *[8 marks]*  
  
(b) Outline, with reference to Foremost, **two** ways in which the company could improve cashflow. *[2 marks]*
  
  4. Using motivation theories to support your answer, assess the contribution of investing in the training and development of staff. *[8 marks]*
  
  5. (a) If Foremost accepts the Big Bucks' contract, explain how it might experience lower costs when moving from a unique and individual style of design and production to a standardised style. *[3 marks]*  
  
(b) If Foremost decide not to accept the contract from Big Bucks, evaluate **three** alternative methods of promotion Foremost could use to attract new customers. *[6 marks]*
  
  6. (a) Write a memo, in the appropriate format, to Mike Collinson, explaining the advantages and disadvantages of appointing a training manager, instead of continuing to subcontract to a training and development company. *[7 marks]*  
  
(b) If Foremost decide to appoint a training manager select the **four** most important qualities you would expect the person to have, providing a reason for each quality selected. *[4 marks]*
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