



**BUSINESS AND MANAGEMENT
HIGHER LEVEL
PAPER 1**

Tuesday 15 November 2005 (afternoon)

2 hours

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Read the case study carefully.
- Section A: answer all the questions.
- Section B: answer one question.

SECTION A

Answer **all** the questions in this section.

1. (a) Evaluate the main types of market research that *Gadgets2u.com* may use to identify their target market and their product requirements. [10 marks]
- (b) Identify possible pricing strategies available to *Gadgets2u.com*. Assess the appropriateness of each in relation to the company's product range. [8 marks]
2. (a) Assess the suitability of the present organization structure of *Gadgets2u.com*, given the recent rapid growth of the company. [8 marks]
- (b) Advise Tom Figueredo on the advantages **and** disadvantages of homeworking. The answer should refer to productivity, motivation and job satisfaction. [8 marks]
3. (a) Analyse the problems for *Gadgets2u.com* of holding too much, or too little, stock. [6 marks]
- (b) Assess the problems that *Gadgets2u.com* may face if it chooses to implement just in time (JIT) stock control (*line 98*). [8 marks]
4. "Sam (Figueredo) is proposing to the senior management team an expansion into retail operations for the firm" (*lines 157-158*). Evaluate this proposal by examining the internal and external forces driving or restraining change at *Gadgets2u.com*. [12 marks]

SECTION B

Answer **one** question from this section.

5. Tom introduced a new Japanese product, a laser light key ring, into the product range in May 2005. He asked Suzi Garcia to review stock movements as part of an investigation into single line profitability. He was anxious to maintain tight control over stock levels and costs. Costs per unit for the key ring changed as exchange rates fluctuated.

Initially *Gadgets2u.com* charged €12 per key ring, but as similar products entered the market, price was lowered to €10 at the start of August to try to slow the decline in sales.

Stocks of key rings were ordered on the first of each month. Sales are shown for the whole month. The table below shows stock movements for the first four months of operations:

Month (2005)	Purchases (units)	Stock sold (units)	Balance (units)
May	6000 @ €3	3400	2600
June	5000 @ €3.20	5620	1980
July	7000 @ €3.40	7560	1420
August	3000 @ €3.20	2175	2245

- (a) Explain why Suzi Garcia has recommended running the “warehouse as a separate cost centre” (*lines 122-123*). *[3 marks]*
- (b) Using both the FIFO and LIFO methods of stock valuation calculate the following for the first four months of operation
- (i) the value of closing stock at the end of each month. *[8 marks]*
- (ii) the gross profit for the period May to August. *[5 marks]*
- (c) Compare FIFO and LIFO as methods of stock valuation for *Gadgets2u.com*. *[4 marks]*

6. The United States economy grew faster than expected in 2005, therefore, in early 2006 interest rates were raised to reduce inflationary pressures. The US dollar also went up in value against the euro. Some European economies were in recession and interest rates remained relatively stable. Although Japan remained in recession, the outlook for the Japanese Economy improved and the yen did not fall in value by as much as forecast (see Appendix 1).

Exchange rates:	Actual		(Forecast)	
	2004	2005	2006	2007
Exchange rate yen per euro	140	145	148	142
Exchange rate dollars per euro	1.16	1.22	1.18	1.10

Cash flow statement January – April 2006

	January	February	March	April
(Euros)				
Receipts				
Sales	281 000	265 000	275 000	342 000
Loan		<u>105 000</u>		
Total receipts	281 000	370 000	275 000	342 000
Payments				
Interest	7 880	7 880	8 650	8 650
Purchases (materials)	204 000	282 000	284 000	432 000
Purchases (fixed assets)		58 000	54 000	
Salaries	38 000	38 000	46 000	46 000
Rent	3 650	3 650	3 650	3 650
Office expenses	2 800	2 750	2 900	3 100
Distribution costs	4 120	4 446	5 230	8 657
Other overheads	3 232	3 454	3 566	6 669
Total payments	<u>?</u>	<u>?</u>	<u>?</u>	<u>?</u>
Net cash flow	?	?	?	?
Opening balance	88 020	?	?	?
Closing balance	?	?	?	?

- (a) Explain the potential effects on *Gadgets2u.com* as interest rates go up. [4 marks]
- (b) Identify the potential effect of changes in the euro to dollar and euro to yen exchange rates on the performance of *Gadgets2u.com*. [4 marks]
- (c) (i) Using the incomplete cash flow statement above, calculate total payments, net cash flow, and opening and closing balances. [4 marks]
- (ii) Evaluate methods by which *Gadgets2u.com* can improve its liquidity and cash flow management. [8 marks]