



**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Wednesday 17 May 2006 (morning)

1 hour 30 minutes

INSTRUCTIONS TO CANDIDATES

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

1. El Burro

In 2004, Danae and Rocio Tefero set up a business, *El Burro*, as a partnership, offering tours on donkeys in Granada, Spain. After seeing elderly tourists struggling to get up the steep hills of the region, they realized that donkeys could easily carry them and provide a unique experience at the same time. The sisters borrowed €4500 to buy six donkeys costing €750 each. Donkeys are a protected species in Granada and only a few people are still breeding them as they are no longer used for farming. Their harnesses are expensive, difficult to obtain and have to be made to order.

Local people have expressed concerns about the donkeys carrying tourists. The sisters argue that donkeys are more environmentally friendly as a form of transport as there is no noise or pollution to damage the area. Danae has also assured them that the animals are strong enough as they are bred to carry heavy loads. Danae and Rocio are committed to supporting the local community to run an educational programme as part of which children are able to ride the donkeys and learn about how they live. The donkeys are particularly safe for children with disabilities. The donkey treks are advertised in the local tourist information offices. The educational programme offers 2 hour rides for €10.

	Net profit per trek	Maximum number of treks per year
Adult	€30	40
Child	€10	60

- (a) Identify **two** main features of a partnership. *[2 marks]*

- (b) Calculate the time taken to payback the initial investment of €4500 assuming *El Burro* operates at the maximum number of treks per year. *[3 marks]*

- (c) Examine **two** ways in which *El Burro* can ensure its survival as a business. *[7 marks]*

- (d) Discuss how the sisters can minimize potential conflict between themselves and the local community. *[8 marks]*

2. Teddybears Picnics Ltd

Teddybears Picnics Ltd produces teddy bears. Financial information includes:

	2004 (\$)	2005 (\$)
Fixed assets	10 000	10 000
Sales revenue	22 000	24 000
Cash	1 200	1 000
Stock	4 800	5 200
Debtors	2 900	3 200
Cost of sales	8 400	8 900
Creditors	3 200	3 400
Retained profit	8 700	9 900
Overheads	4 400	5 000
Long term liabilities	7 000	6 100

(a) Define the following terms:

- (i) *fixed assets*
- (ii) *current assets*
- (iii) *current liabilities.*

[6 marks]

(b) Construct a profit and loss account for *Teddybears Picnics Ltd* for each of the years 2004 and 2005.

[5 marks]

(c) Produce a balance sheet for *Teddybears Picnics Ltd* for each of the years 2004 and 2005.

[6 marks]

(d) Identify **three** ways in which *Teddybears Picnics Ltd* can improve their net profit.

[3 marks]

3. Fairplay

Fairplay is a large clothing company promoting ethical responsibility to protect their corporate image. *Fairplay* is developing an ethical policy and guidelines for safety in their overseas operations. It insists that suppliers meet appropriate guidelines; pay adequate wages; and treat all employees fairly. With faster communication, unethical business behaviour in other countries is quickly exposed globally.

Poverty, high unemployment, and weak, non-existent or unenforced labour laws in many countries make it easy to abuse employees. In the past *Fairplay* has experienced bad publicity from working with suppliers that use child labour, and provide poor working and living conditions. External stakeholders are demanding an ethical response and *Fairplay* must respond to this. *Fairplay* are considering developing a code of practice to protect their reputation and brand names. For example, they provide meals for workers and offer medical care in their factory in Honduras and, as a consequence productivity has doubled.

Fairplay's ethical policies also apply to its suppliers and failure to comply means that *Fairplay* discontinues working with them. *Fairplay* visits factories without notice to check standards.

- (a) Define with an example the term *external stakeholder*. [2 marks]
- (b) Explain the benefits to *Fairplay* of setting ethical objectives. [4 marks]
- (c) Recommend **four** policies that *Fairplay* should include in its code of practice. [4 marks]
- (d) Evaluate the costs and benefits to *Fairplay* of working more closely with its suppliers to ensure it meets the standards set out in its code of practice. [10 marks]

4. The Computer Games Market

Increasingly the \$18.2 billion global market for computer games is dominated by a few publishers. The UK games development market is worth \$300 million and exports outweigh imports. More and more UK games publishers are being taken over by Japanese and US rivals. The computer games market is the fastest growing media industry in the world. The risks involved in creating an original game are significant. There is no guarantee that a game created by a software developer will be bought by a games publisher. New games consoles (hardware) are constantly being developed across the industry and as competitors increase, employee skills need to be upgraded. The number of new games is decreasing and those that are produced are increasingly linked to the film industry.

Another threat to the UK industry is the outsourcing* of development to cheaper sources in Eastern Europe and Vietnam. The shrinking market has forced developers to diversify and take risks. For example they now are making games for mobile phones. The UK is the world leader in the rapidly expanding mobile phone games market.

* outsourcing: to send out work to an outside provider in order to cut costs.

[Source: adapted from *The Sunday Telegraph* 6 September 2004]

- (a) Explain how computer games businesses can ensure their employees' skills meet the needs of a rapidly changing industry. *[4 marks]*

- (b) Describe the importance of innovation in a rapidly changing computer games market. *[4 marks]*

- (c) Discuss the problems of financing research and development in the high risk market of computer games development. *[7 marks]*

- (d) Examine the long-term implications for the UK games industry of outsourcing development to Eastern Europe and Vietnam. *[5 marks]*

5. Keysnapz

Phil Newman runs a business, *Keysnapz*, providing souvenir photo keyrings for special occasions. He has approached a theme park to provide souvenir photo keyrings for customers as a memory of their day out. The minimum requirement of the contract is 1000 key rings per year.

In order to fulfil the contract Phil will need to rent premises at the theme park costing \$1700 per year but he does not need to purchase any equipment to produce the keyrings. He needs to buy plastic ring parts costing \$0.16 per unit, clips costing \$0.03 per unit and photo paper costing \$0.06 per unit. Phil intends to sell the keyrings at \$3.65 each and estimates that he can produce 2500 keyrings per year.

- (a) Explain, with appropriate examples, the difference between fixed and variable costs. *[4 marks]*
- (b) Calculate the
- (i) break-even point *[4 marks]*
 - (ii) margin of safety at 1000 keyrings *[1 mark]*
 - (iii) profit at 1000 keyrings *[2 marks]*
 - (iv) profit at 2500 keyrings. *[2 marks]*
- (Clearly show your working out.)*
- (c) Analyse the limitations of using break-even analysis as a planning tool. *[7 marks]*
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