

MARKSCHEME

November 2000

BUSINESS AND ORGANISATION

Higher Level

Paper 2

1. (a) **Describe *four* possible objectives of Sailmoore.** **[4 marks]**

To make a profit.
To grow.
To provide a service to customers.
To survive.
To gain prestige.
To increase market share.

Award [1 mark] for each suitable objective described up to a maximum of [4 marks].

- (b) **Explain what is meant by depreciation and why Sailmoore needs to consider it when choosing an appropriate option.** **[4 marks]**

This is the amount deducted each year, on the balance sheet, as ‘fixed assets’ wear out, lose value, need maintenance, and then, after some specified time period, need replacing.

Sailmoore expect the boats to have a useful life of ten years – they need to deduct an amount each year so that the boats are written off over their useful life. This would apply to Option 1 and Option 3.

Level 1 [3 - 4 marks]: candidate explains what is meant by depreciation and applies it in an appropriate manner to Sailmoore.

Level 2 [1 - 2 marks]: candidate attempts to explain what is meant by depreciation and applies it to Sailmoore, or candidate correctly explains what is meant by depreciation but does not apply it to Sailmoore.

- (c) Use Average Rate of Return to consider each of the options and evaluate each alternative. Produce a report making recommendations to the owners as to which you consider to be the best option for Sailmoore.

[12 marks]

$$\text{ARR} = \frac{\text{Expected average annual profits}}{\text{Original investment}} \times 100$$

Option 1

Original investment = \$62 000 × 10 = \$620 000.

Return = \$8400 × 10 × 10 = \$840 000.

Expected total profit = \$840 000 - \$620 000 = \$220 000.

Expected average annual profit = $\frac{220\,000}{10} = \$2200$.

ARR = $\frac{220\,000}{620\,000} \times 100 = 3.55\%$.

Advantages:

Return on each boat would be \$8400 × 10 × 10 = \$840 000 making a profit of \$220 000.

ARR is 3.54%.

Represents immediate ownership.

If investment is made from retained profits and no loan is needed then the company will not be held liable by a finance company.

Residual value of boats of \$100 000.

Disadvantages:

Initial outlay would be \$620 000, which would be a heavy investment for the company.

ARR is low and perhaps the money invested would be better kept in the bank.

Investment may involve debt finance, which will incur interest charges.

Company responsible for refurbishment and maintenance.

Option 2

Total cost = $7000 \times 10 \times 10 = \$700\,000$.

Expected Total Revenue = $8400 \times 10 \times 10 = \$840\,000$.

Expected Total Profit = $840\,000 - 700\,000 = \$140\,000$.

Expected Average Annual Profit = $\$14\,000$.

$$\text{ARR} = \frac{14\,000}{700\,000} \times 100 = 2\%$$

Advantages:

Complete refurbishment will keep boats looking smart and ensure they are kept up to date. Total cost is \$7000 per year per boat, which is a total outlay of \$700 000. Total revenue on boats is \$840 000.

This would represent a profit of \$140 000 and would be less profitable than Option 1 but there would be no massive initial outlay.

Payment is phased over 10 years, so outlay is minimised.

Company may be able to claim tax relief.

Company do not need to worry about maintenance.

Disadvantages:

ARR is low at 2% and investment may achieve greater returns in another project.

Company does not own boats, represents debt.

May be held liable by finance company if business has problems and may be forced into liquidation.

Use of boats is financed rather than purchased.

Payment is greater in the long run.

Company does not benefit from residual value of boats.

Option 3

Shared ownership scheme for 10 boats, whereby 100 owners would pay \$2500 each to receive 5 weeks holiday, all maintenance and repairs to be done by Sailmoore. This would cost \$140 000. The total residual value to the boats after 10 years will be \$100 000.

Total investment by owners = $2500 \times 100 = \$250\,000$.

Total Cost = \$140 000.

Total Expected Profit = \$110 000.

Expected Average Annual Profit = \$11 000.

$$\text{ARR} = \frac{11\,000}{250\,000} \times 100 = 4.4\%$$

Advantages:

No initial outlay by company.

Profit generated is $\$250\,000 - \$140\,000 = \$110\,000$.

Highest ARR at 4.4%.

Residual value of boats of \$100 000 but may have to be shared with new share owners.

Disadvantages:

May not get 100 people interested in shared ownership.

Least profit gained in Option 3.

Company is responsible for maintenance and repair, as with Option 1.

Company does not own boats.

Company may need to intervene if disputes arise between owners.

Boats are not available for other people to hire.

Charges cannot be increased if costs increase.

Award [1 mark] for a report in a suitable format for example:

To, from, subject, introduction, main body, results, conclusion, and recommendations.

Level 1 [9 - 11 marks]: candidate correctly works out the ARR for each option, however at the lower end there may be one error. They evaluate each of the options, explaining at least two advantages and two disadvantages for each option. The candidate makes a suitable recommendation to Marco and Raoul as to the best option based on their calculations and evaluation.

Level 2 [5 - 8 marks]: candidate uses a correct method to work out the ARR for each option, though all the calculations may not be correct. They evaluate each of the options, explaining at least one advantage and one disadvantage for each option. The candidate makes a suitable recommendation for the best option based on their calculations and evaluation.

Level 3 [3 - 4 marks]: candidate attempts to work out the ARR but it may be incorrect. They attempt to evaluate each of the options and recommends one option and explains, but not in detail, the reasons for their choice. They may not compare the three options.

Level 4 [1 - 2 marks]: candidate produces a limited response.

2. (a) **Explain, by reference to Large Land, what is meant by the following terms:**

- (i) **customer service**
- (ii) **appraisal**
- (iii) **quality service.**

[6 marks]

Customer service – This is the way in which staff within a company deal with their customers. The better the experience the customer has, the better the customer service. It includes tangible and intangible aspects.

Appraisal – assessing an employee’s performance in his or her job. It should be an ongoing process, and may be formal to informal. Used to identify training needs and may be used to determine performance related pay.

Quality service – The implementation of quality systems to ensure that quality standards will be met to ensure customer satisfaction. Involves checking against standards, gaining customer feedback, emphasis on staff to use their initiative and to improve their own performance as well as suggesting improvements to further improve practice. Staff feel valued and this enables them to make the customer feel important. Customer complaints are dealt with quickly and efficiently.

Award [1 mark] for each explanation and [1 mark] for each reference to Large Land up to a maximum of [6 marks].

(b) **Analyse the benefits for Large Land of operating as a small decentralised business unit rather than as a centralised organisation.**

[6 marks]

In a centralised organisation the main decisions are made by senior management, little authority is passed down the organisation. Advantages are that decisions are made by experienced people with an over view which ensures policies are consistent throughout the organisation. Disadvantage is that staff are not encouraged to make decisions and may not feel ownership.

In a decentralised business there is more individual accountability. Departments are able to react quickly to make decisions and solve problems. Staff feel ownership and can use their initiative. Motivation may increase, as staff feel able to make decisions. Teamwork is encouraged and the sharing of ideas. Cost centres can be created making staff accountable for budgets and savings. Departments, if given their own budget can make their own improvements to enhance performance. Personal development is encouraged. Rewards system can be set up to encourage greater profitability. Staff feel they are listened to and can contribute. Staff feel able to respond to individual needs of customers. Quality may improve as staff are made to feel more accountable.

Level 1 [5 - 6 marks]: candidate demonstrates their understanding of the difference between a centralised and decentralised business. They analyse at least two benefits of operating as a small-decentralised business unit in detail with reference to Large Land.

Level 2 [3 - 4 marks]: candidate shows that they understand what is meant by a centralised and decentralised business, though not in any detail. They attempt to analyse at least two benefits of operating as small-decentralised business units, though their response lacks detail but there is some reference to Large Land. If there is no analysis the candidate lists at least three benefits.

Level 3 [1 - 2 marks]: candidate gives a limited response.

- (c) **Use appropriate motivation theory to assess how the rewards system might help to motivate staff.** [6 marks]

Staff feel a benefit if they receive rewards, recognitions, awards and praise for hard work and those who do not work hard do not benefit. If they work hard individually they may still receive recognition even if the team may let them down.

Level 1 [5 - 6 marks]: candidate explains how the rewards system motivates staff with reference to Large Land and uses appropriate motivational theory such as Maslow to support their answer.

Level 2 [3 - 4 marks]: candidate explains how the rewards system may motivate staff, but the explanation may lack detail. They attempt to use theory to support their answer, at the lower end the theory may be inappropriate. They may not make reference to Large Land at the lower end.

Level 3 [1 - 2 marks]: candidate produces a limited response that lacks detail and reference to motivation theory.

- (d) **Outline two other ways in which Large Land could carry out market research in order to improve their customer service.** [2 marks]

Questionnaires to customers while they are in the resort.

Correspondence with potential customers, existing customers and previous customers.

Telephone interviews.

Observation of customers while in the resort.

Secondary research.

Sample surveys.

Award [1 mark] for each suggestion outlined up to a maximum of [2 marks].

3. (a) **Explain *three* ways in which Yonussi could alter the seasonal pattern of their sales.** **[3 marks]**

Promote health-giving aspects.
Promote as wedding and birthday presents.
Special offer promotions at certain times.
Promote as essential item for the home.
Advertise regularly and expensively.
Personal selling.
Merchandising.
Direct mailing.
Trade promotions.
Exhibitions *e.g.* Ideal Home, Homemakers, Good Homes *etc.*
Sponsorship.

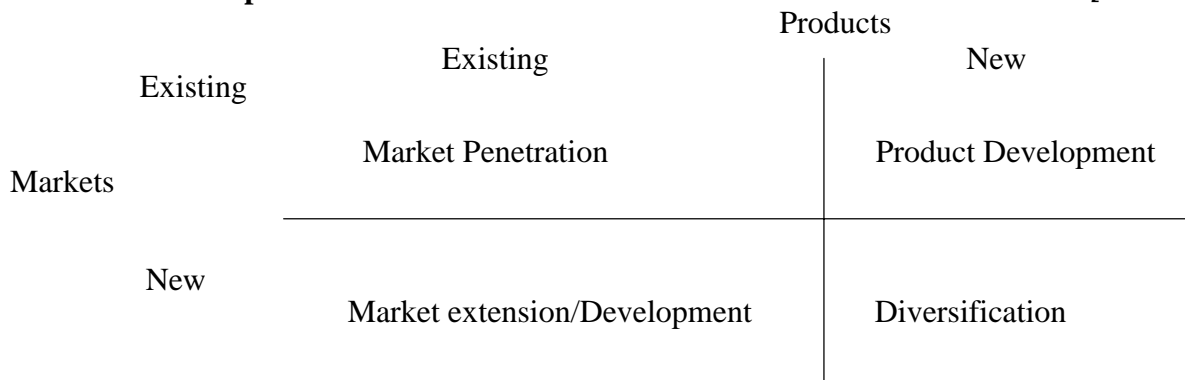
Award [1 mark] for each suitable suggestion up to a maximum of [3 marks].

- (b) **What are the *three* main benefits to Yonussi of diversifying into new products rather than increasing kettle production?** **[3 marks]**

Kettle is a mature product and the market may be saturated.
Increasing capacity may just produce excess products that cannot be sold.
Declining products may be replaced.
Allows innovative design to take place, may produce new challenge.
Creates product mix – desirable to have products at different stages of life cycle.
Customers who have bought kettles may buy new products.
New customers may buy products.

Award [1 mark] for each suitable benefit given up to a maximum of [3 marks].

- (c) **Develop a product growth strategy for Yonussi if they decide to enter the espresso coffee maker market.** **[8 marks]**



Yonussi is looking to enter a new market with a new product and the strategy suggested by the candidate should reflect this, *i.e.* diversification. Yonussi is planning to concentrate on the espresso coffee maker market and the strategy should be aimed at the market segment most likely to buy espresso coffee makers. Candidates may also consider a new product in an existing market - product development.

Dealers are hostile to the idea of a new entrant in the market and the candidate may suggest a way of overcoming this problem to persuade dealers to stock it, or a campaign aimed at consumers so that they demanded the product from dealers. The candidate should recognise, however, that this might be expensive.

Strategy may exploit potential for working with the coffee manufacturers.

Candidate's answer should reflect a co-ordinated plan of action.

Components of strategy

Research.

Product planning and development – range, quality, market position, branding, packaging.

Pricing – skimming, penetration, differentiation, terms and conditions.

Distribution – channel, delivery, direct or indirect methods.

Promotion – advertising, selling, sales promotion.

Level 1 [6 - 8 marks]: candidate's answer reflects a co-ordinated plan of action that suggests a suitable product growth strategy. The candidate may or may not refer to Ansoff's matrix but makes suggestions as to how Yonussi could develop a diversification or product development strategy. The candidate may also apply the marketing mix to the case study.

Level 2 [3 to 5 marks]: candidate's answer reflects an attempt to produce a co-ordinated plan of action that suggests a suitable marketing strategy. The candidate applies the marketing mix to the case study, but it may not fully address diversification or product development.

Level 1 [1 to 2 marks]: candidate produces a limited response.

- (d) **In 1995 Yonussi sold 213 000 kettles and in 1999 they sold 360 000 kettles. Calculate their share of the kettle market in 1995 and in 1999. Comment on the change and give *two* reasons why the change may have occurred.**

[6 marks]

Market share	1995	1999
	$\frac{213000}{618000} \times 100 = 34.47\%$	$\frac{360000}{707000} \times 100 = 50.92\%$

Market share has changed from 34.5% to 51%, an increase of 16.5%. Clearly they are doing something right. Changes may have occurred due to

- Improved marketing.
- Better or more frequent advertising.
- New markets found.
- Superior product.
- Product development.
- Different pricing strategies.
- Better application of marketing mix.

Level 1 [6 marks]: candidate correctly calculates market share for both years and shows their working out. They comment on the changes and fully explain two suitable reasons why the change may have occurred

Level 2 [3 - 5 marks]: candidate calculates market share correctly but may not show their working out, at the lower end there may be errors. The candidate comments on the changes, but the answer lacks detail. The candidate explains two suitable reasons why the changes may have occurred, though the explanations lack depth, or the candidate fully explains one reason.

Level 1 [1 - 2 marks]: candidate produces a limited response.

4. (a) Calculate:

(i) contribution per carton of cereal *[4 marks]*

(ii) break-even quantity *[2 marks]*

(iii) profit if the factory operates at 70% of capacity *[4 marks]*

(iv) margin of safety if the factory operates at 70% capacity. *[2 marks]*

(i) Contribution per carton of cereal *[4 marks]*

Cereal sells at \$1.20 per carton

Raw materials per carton \$0.30

Labour costs \$100 per hour and 1000 cartons made per hour.

Labour per carton = 100/1000 = \$0.10

Packaging costs \$10 per 100 cartons. Packaging per carton = 10/100 = \$0.10

Distribution per carton \$0.10

Total variable costs per unit

Raw materials per carton \$0.30

Labour per carton \$0.10

Packaging per carton \$0.10

Distribution per carton \$0.10

\$0.60

Contribution per unit = Selling price - variable cost per unit = \$1.20 - \$0.60 = \$0.60

Award [2 marks] for correct answer and [2 marks] for correct method / working out.

(ii) Break-even quantity *[2 marks]*

Fixed costs \$600 000

Contribution per unit \$0.60

$$\text{Break-even quantity} = \frac{\text{Fixed costs}}{\text{Contribution per unit}} = \frac{600\,000}{0.60} = 1\,000\,000 \text{ cartons}$$

Award [1 mark] for correct answer and [1 mark] for correct method.

(iii) Profit if the factory operates at 70% of capacity **[4 marks]**

Total capacity = 2 000 000

$$70\% \text{ of } 2\,000\,000 = \frac{2\,000\,000 \times 70}{100} = 1\,400\,000 \text{ cartons}$$

Total revenue = price \times quantity = $\$1.20 \times 1\,400\,000 = 1\,680\,000 = \1.68m

Total costs = Fixed costs + variable costs = $600\,000 + (\$0.60 \times 1\,400\,000) =$
 $600\,000 + 840\,000 = 1\,440\,000 = \1.44m

Profit = Total Revenue - Total costs = $\$1.68\text{m} - \$1.44\text{m} = \$0.24\text{m}$

Award [1 mark] for correct calculation of 70% capacity, [1 mark] for calculating the revenue correctly, [1 mark] for correct total costs and [1 mark] for calculating the profit correctly.

(iv) Margin of safety if the factory operates at 70% of capacity **[2 marks]**

Total capacity = 2 000 000

70% capacity = 1 400 000 cartons

Break-even quantity = 1 000 000 cartons

Present output - Break-even output = $1\,400\,000 - 1\,000\,000 = 400\,000$ cartons

Award [1 mark] for correct answer and [1 mark] for correct method.

(b) The directors of the company are considering increasing the selling price of Krispie Pop cartons to \$1.40. Explain the effect of this on the break-even point and sales. [4 marks]

Contribution per unit = Selling price - variable cost per unit = $\$1.40 - \$0.60 = \$0.80$

$$\text{Break-even quantity} = \frac{\text{Fixed costs}}{\text{Contribution per unit}} = \frac{600\,000}{0.80} = 750\,000 \text{ cartons}$$

The rise in price will lower the break-even level of output to 750 000. The contribution per unit will increase to \$0.80. The new price may reduce sales and cause customers to switch to other brands, thereby reducing profit.

Award [1 mark] for calculating a new contribution per unit.

Award [2 marks] for a correct calculation of new break-even point.

Award [1 further mark] for an explanation of the effect related to Krispie Pops.

OR

Award up to [3 marks] for a detailed explanation of the effect of the increase on price on the break even point and sales, if applied to Krispie Pop.

- (c) **Suggest *two* other ways in which the company could increase sales revenue.**

[4 marks]

Reduce fixed costs.
Increase selling price.
Reduce labour costs.
Reduce distribution costs.
Obtain cheaper packaging.
Buy cheaper raw materials.
Buy less stock.
Reduce credit payment period.
Exercise tight credit control.
Offer incentives for prompt payment.
Delay payment to creditors.
Consider ways to increase production.

Award up to [2 marks] for each suggestion up to a maximum of [4 marks].

5. (a) **Outline *one* advantage and *one* disadvantage of being a sole trader (proprietor).** [2 marks]

Advantages

Flexibility and freedom.

Personal control - with no requirement to consult.

Enjoyment of all profits.

No need to disclose business affairs, except to tax authority and creditors when seeking loans.

Absence of legal formalities when establishing the business.

Disadvantages

Limited sources of finance.

Success depends on owner's energy and continuing fitness.

Constraint of lack of time and specialisation.

Full personal responsibility for decisions.

Liable for debts.

No continuity of existence if owner dies.

Award [1 mark] for each advantage and/or disadvantage outline up to a maximum of [2 marks].

- (b) **Calculate the missing figures:**

(i) **1999 Cost of Sales**

(ii) **1999 Net Profit**

(iii) **1998 Gross Profit**

(iv) **1999 Current Assets**

[4 marks]

(i) 1999 Cost of Sales

$$\text{Cost of sales} = \text{Sales revenue} - \text{Gross Profit} = 68\,390 - 17\,097.50 = \$51\,292.50$$

Award [1 mark] for correct answer.

(ii) 1999 Net Profit

$$\text{NP} = \text{GP} - \text{Overheads} = 17\,097.50 - 14\,068.20 = \$3\,029.30$$

Award [1 mark] for correct answer.

(iii) 1998 Gross Profit

$$\text{GP} = \text{Sales revenue} - \text{Cost of sales} = 80\,250 - 60\,187.50 = \$20\,062.50$$

Award [1 mark] for correct answer.

(iv) 1999 Current Assets

$$\text{CA} = \text{Cash} + \text{Debtors} + \text{Stock} = 134.50 + 2060 + 4520 = \$6714.20$$

Award [1 mark] for correct answer.

- (c) Using at least *four* ratios compare and analyse the profitability, efficiency and liquidity of Sugar Candy in 1998 and 1999. [8 + 6 marks]

	1999	1998
Gross profit margin = $\frac{GP \times 100}{SR}$	$\frac{17097.50}{68390} \times 100 = 25\%$	$\frac{20062.50}{80250} \times 100 = 25\%$
Net profit margin = $\frac{NP \times 100}{SR}$	$\frac{3029.30}{68390} \times 100 = 4.4\%$	$\frac{7012.50}{80250} \times 100 = 8.7\%$
Current = $\frac{CA}{CL}$	$\frac{6714.20}{8030.40} = 0.84$	$\frac{12570}{10399.50} = 1.21$
Acid test (Quick) = $\frac{CA - \text{stock}}{CL}$	$\frac{2194.20}{8030.40} = 0.27$	$\frac{4940}{10399.50} = 0.48$
ROCE = $\frac{NP \times 100}{\text{Capital employed}}$	$\frac{3029.30}{89205.80} \times 100 = 3.39\%$	$\frac{7012.50}{94016.50} \times 100 = 7.6\%$

Award [1 mark] for each ratio calculated for each year up to a maximum of [8 marks].

Gross profit has remained the same for both years, whereas net profit has decreased in 1999. This means that the company has increased its overheads without increasing its sales revenue. Cost of sales has remained in proportion. Current ratios and acid test ratios have decreased showing that the company would have difficulty meeting its short-term debts. Its efficiency has reduced, shown by the reduction in return on capital employed but it is still giving a reasonable rate of return.

Level 1 [5 - 6 marks]: candidate compares and analyses liquidity, efficiency and profitability in depth and makes detailed reference to the ratios previously calculated to support their answer.

Level 2 [3 - 4 marks]: candidate compares and analyses liquidity, efficiency and profitability but the answer lacks detail, at the lower end they may not refer to one of the elements. Candidate uses the ratios calculated to support their answer but some ratios may not be discussed.

Level 1 [1 - 2 marks]: candidate produces a limited response.

Do not penalise candidates for incorrect ratios, based on their own figures as they have already lost marks.

6. (a) **Discuss *three* reasons why Diaz and Morelli might want to become involved in community projects.** [5 marks]

High regard for company in community.
Good publicity.
Staff morale.
Motivation.
Staff development.
Informal customer feed back.
Company will grow and prosper as staff develop.
Altruism

Level 1 [4 - 5 marks]: candidate discusses three suitable reasons why Diaz and Morelli might want to become involved in community projects and relates them to the case study.

Level 2 [2 - 3 marks]: candidate discusses three suitable reasons why Diaz and Morelli might want to become involved in community projects but may not relate them to the case study or candidate gives two suitable reasons related to the case study.

Level 3 [1 mark]: candidate makes a limited response

- (b) (i) **Assess the importance of consulting the employees as to which charities the company should become involved with.** [6 marks]

It is felt that making a positive contribution will boost morale and motivation as well as offering scope for staff development. Staff have been able to develop skills such as communication, collaboration, leadership, teamwork and creative thinking through their involvement.

Level 1 [5 - 6 marks]: candidate assesses the importance of consulting employees, relates it to Diaz and Morelli and may include appropriate theory.

Level 2 [3 - 4 marks]: candidate attempts to assess the importance of consulting employees, they may not relate it to Diaz and Morelli. They may not include motivation theory in their answer.

Level 3 [1 - 2 marks]: candidate makes a limited response.

- (ii) **Evaluate how the skills learned by taking part in the community projects can help to improve the performance of the organisation.** [4 marks]

Employees develop skills such as teamwork, planning, delegation, leadership, communication, problem solving, dealing with people, running meetings *etc.* Skills learned might improve the organisation by enabling employees to develop skills and practice on other people rather than those they work with. This enables them to make mistakes and learn from them without their colleagues knowing. Skills learned will improve the organisation by raising the skill level of the employees and therefore making them more effective in the workplace. This will lead to better performance in the workplace, making the staff more efficient, leading to improved profits, less waste and more responsibility and ownership. Develop skills away from peers may improve confidence and teamwork leading to better productivity in the organisation.

Skills however may not be transferred back to the organisation if staff are not encouraged to reflect on their performance.

Level 1 [4 marks]: candidate explains at least two examples of skills that could be learned, evaluates them with reference to the case study and relates them to the performance of the organisation.

Level 2 [2 - 3 marks]: candidate explains at least two examples of skills that could be learned, and attempts to evaluate them with reference to the case study. The skills are related to the performance of the organisation but the evaluation lacks detail.

Level 3 [1 mark]: candidate gives a limited response.

- (c) **Prepare a memo to the staff from the finance department explaining the benefits of donating to charity.** [5 marks]

Benefits

Feel good factor.

Can give to their favourite good causes.

As it comes from payroll they will not have it available to spend and will become used to living without it.

Charities benefit as they may also be able to receive extra money from the government through taxes.

Sets a good example to others.

Award [1 mark] for a correct memo format - to, from, date, subject.

Level 1 [4 marks]: candidate explains the advantages to the employees of donating to charity. They may discuss the implications of extra income being available to the charity and the benefits of deduction from payroll.

Level 2 [2 - 3 marks]: candidate attempts to explain the advantages to the employees of donating to charity. They may not discuss the benefits of deduction from payroll.

Level 3 [1 mark]: candidate produces a limited response.

7. (a) Explain *three* advantages that Ricco and Consuela would gain from operating as a franchise rather than setting up an independent business.

[3 marks]

Advantages may include:

A ready-made product or format.
 Recognised name, known to both potential customers and suppliers.
 Public awareness.
 Advice, assistance and training.
 A set of procedures.
 Bulk purchasing on preferential terms by franchiser, franchisee benefits.
 Benefit of research and development done by the franchiser.
 Help with site selection and layout.
 Access to the franchisers legal and financial advisors.
 Loan facilities.
 Privileged rights to franchise (and therefore brand name) within a defined area.
 Lower start up costs.

Award [1 mark] for each advantage explained up to a maximum of [3 marks].

- (b) Construct a cashflow forecast for Las Tapas.

[8 marks]

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Inflow												
Opening balance	0	640	(400)	80	(120)	(11 000)	(16 400)	(23 820)	(29 900)	(35 300)	(38 020)	(36 540)
Capital investment	250 000											
Sales	21 000	19 000	22 000	20 000	15 000	15 000	12 000	13 000	15 000	17 000	22 000	25 000
Total inflow	271 000	19 000	22 000	20 000	15 000	15 000	12 000	13 000	15 000	17 000	22 000	25 000
Outflow												
Wages	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000	2000
Food purchases	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000	10 000
Beverage costs	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000	5000
Own drawings	3150	2850	3300	3000	2250	2250	1800	1950	2250	2550	3300	3750
Electricity and gas			1000			1000			1000			1000
Telephone							500					
Advertising					6480							
Administration	210	190	220	200	150	150	120	130	150	170	220	250
Royalties												10 800
Licence to Franchiser	250 000											
Total Outflow	270 360	20 040	21 520	20 200	25 880	20 400	19 420	19 080	20 400	19 720	20 520	32 800
Net Cashflow	640	(1040)	480	(200)	(10 880)	(5400)	(7420)	(6080)	(5400)	(2720)	1480	(7800)
Closing balance	640	(400)	80	(120)	(11 000)	(16 400)	(23 820)	(29 900)	(35 300)	(38 020)	(36 540)	(44 340)

Level 1 [7 - 8 marks]: candidate produces a cashflow using a suitable layout, includes all information, including capital investment. At the lower end there may be one error.

Level 2 [5 - 6 marks]: candidate produces a cashflow using a suitable layout, includes most of the information, but may not include capital investment. There may be some errors.

Level 3 [3 - 4 marks]: candidate attempts to produce a cashflow using a suitable layout, but may omit part of the information. There may be several errors.

Level 4 [1 - 2 marks]: candidate gives a limited response.

- (c) **Comment on the cashflow forecast and suggest *two* ways of increasing cashflow.** [4 marks]

The cashflow forecast does not show much/any return based on the level of investment needed and Ricco and Consuela need to seriously consider if it's worth the investment. They need to look at ways of increasing sales and reducing outflow, notably administration, own drawings, food and beverage costs

Level 1 [3 - 4 marks]: candidate comments on the cashflow forecast and recognises the need to increase sales and cut costs. They suggest two suitable ways of increasing cashflow.

Level 2 [1 - 2 marks]: candidate comments on the cashflow forecast but the answer lacks detail and may not recognise the need to increase sales and cut costs. They suggest two suitable ways of increasing cashflow.

- (d) **You work for the Franchiser, identify the Strengths, Weaknesses, Opportunities and Threats (SWOT) for Ricco and Consuela of operating Las Tapas.** [5 marks]

Strengths - Benefit of working with franchise, use of prestigious name, customers will be more inclined to use a well known restaurant, economies of scale.

Weaknesses - Cashflow forecast, large investment for small return in the first year, accountable to franchise.

Opportunities - new customers, benefits of franchise, loan facilities, promotion techniques to increase sales.

Threats - other competitors, business may fail incurring costs.

Level 1 [4 - 5 marks]: candidate identifies at least one Strength, Weakness, Opportunity and Threat and relates them to the case study.

Level 2 [2 - 3 marks]: candidate identifies one Strength, Weakness, Opportunity and Threat but may not relate it to the case study or one of the elements may be missing.

Level 3 [1 mark]: candidate gives a limited response.

8. (a) **Use Kowis mission statement to explain why they may have had three loss making years.** [4 marks]

Mission statement “to maintain customer service, the way it’s always been”.

The mission statement describes a business that is not looking to develop and improve its practice. The business sees its current operation as satisfactory and is not looking at ways to develop. This will have an effect on profits, the management of the business, the way employees operate and will affect all operations of the business.

Level 1 [3 - 4 marks]: candidate recognises that the business is resting on its laurels and is not striving to develop and improve. They make reference to the operation of the business, e.g. operations, management.

Level 2 [1 - 2 marks]: candidate gives a limited response and may not refer to the mission statement and attempts to explain the losses.

- (b) **Analyse the present organisational chart in terms of line management responsibility and span of control.** [5 marks]

Line management responsibility - the relationship between a superior and a subordinate, whereby the manager takes responsibility for those directly below him or her and manages their day-to-day operation.

Span of control - the number of people directly accountable and reporting to a particular superior.

The chart shows that it is a hierarchical structure with many senior management positions. This restricts contact with subordinates for the managing director and those immediately below him or her. Responsibilities are well defined and understood by everyone in the organisation. This makes it difficult to work outside departments and the restricted structure. Initiative is not encouraged and employees do not feel ownership. Staff from different departments do not probably work together on projects but work through their line managers.

Level 1 [4 - 5 marks]: candidate explains what is meant by line management responsibility and span of control, they relate their explanation to the case study citing specific examples. The candidate analyses the organisation structure in terms of the implications for the organisation of this type of structure.

Level 2 [2 - 3 marks]: candidate explains what is meant by line management responsibility and span of control, though the explanation may lack detail, they attempt to relate their explanation to the case study but may not cite specific examples. The candidate may not analyse the organisation structure in terms of the implications for the organisation of this type of structure. At the lower end they may not explain what is meant by line management responsibility and span of control.

Level 3 [1 mark]: candidate makes a limited response.

- (c) **Evaluate the changes for the workforce of removing a layer from the organisational structure.** [4 marks]

Removing a layer from the organisation structure will increase responsibility for those at lower levels of the structure. A flatter structure will allow employees to consult more directly with the managing director and to enable decisions taken at a high level of the chain to be actioned much quicker by those at the bottom of the chain. Communication may become more informal. Delegation may be more difficult. The span of control is likely to be wider and promote better teamwork. Employees are more likely to work with those from other departments.

Level 1 [3 - 4 marks]: candidate evaluates the changes for the workforce, with reference to the case study. They recognise the implications for the workforce, for example in terms of responsibility, teamwork, decision-making and delegation.

Level 2 [1 - 2 marks]: candidate attempts to evaluate the changes for the workforce but may not make reference to the case study and their response may be limited in terms of responsibility, teamwork, decision making and delegation.

- (d) **Use appropriate leadership theory to analyse the decision to employ entrepreneurial managers rather than old fashioned bureaucratic managers.** [7 marks]

The new Entrepreneurial leaders are more likely to be adaptable to situations and alert to the environment. They are risk takers, who are ambitious and achievement oriented. They are assertive, decisive and energetic, but also co-operative. They are willing to assume responsibility and actively seek change. They are more likely to listen to, and act upon, the suggestions of those in their team.

The old fashioned bureaucratic managers are more likely to manage in the way that the organisation has always been managed, by the rules. They discourage the use of initiative and allow their subordinates little freedom. They are more likely to be inflexible and create resentment from those below them who seek to change the organisation. However, employees feel that they know what to expect.

Leadership theory could include McGregor's Theory X and Theory Y, Blake and Moutons grid, Fiedler, Likert and Tannenbaum and Schmidt.

Level 1 [6 - 7 marks]: candidate makes use of appropriate leadership theory to analyse the different characteristics of the two types of leaders. They discuss the difference in detail, applying the theory and making reference to the case study.

Level 2 [4 - 5 marks]: candidate makes use of appropriate leadership theory to analyse the different characteristics of the two types of leaders, but they may not discuss the difference in detail. They attempt to apply the theory to the case study

Level 3 [2 - 3 marks]: candidate may not make use of appropriate leadership theory but attempts to analyse the different characteristics of the two types of leaders. They may not discuss the difference in detail, may not apply the theory if used, or make reference to the case study.

Level 4 [1 mark]: candidate makes a limited response.
