

IMIS DIPLOMA QUALIFICATIONS

**The Business Context of Information Systems  
(D2)**

Tuesday 3<sup>rd</sup> June 2014 14:00hrs – 17:00hrs

**DURATION: 3 HOURS**

**Candidates should answer ALL the questions in Part A and THREE of the five questions in Part B. Part A carries 40% of the marks available and Part B carries 60%. Candidates should allocate their time accordingly.**

*No reference material of any kind may be taken into the examination.*

[Turn over]

**PART A. Answer ALL questions in this section****Question A1**

A group of friends plan to start a new business and agree that this business should be in the form of a Partnership.

Identify THREE disadvantages or risks that may occur in relation to this form of business structure.

**(5 marks)**

**Answer A1**

The individual partners may have unlimited liability for business debts  
Profits have to be shared amongst the many owners  
The partnership agreement or deed of partnership may be complex to set up  
Partners may disagree about business decisions and hold back the business  
The number of partners may be restricted by legislation which can effectively limit the amount of capital that could be raised  
Partnership ends with the death of one partner  
Any decision by one partner is legally binding on all of them  
Partners may be sued individually

**(Marking – up to 2 marks per example, maximum 5marks)**

**(Total 5 marks)**

**Question A2**

The Acid Test Ratio, also known as the Quick Ratio, differs slightly from the Current Ratio.

a) What asset is excluded in the calculation of the Acid Test Ratio?

**(2 marks)**

b) Why is it argued that this factor should be excluded when measuring the solvency of a business?

**(3 marks)**

**(Total 5 marks)**

**Answer A2**

a) Stock or Inventory

**(Marking - 2 marks)**

- b) Because stock is not as liquid as Cash or Debtors
  - It takes time to convert stock into cash
  - There may be uncertainty about how stock has been valued
  - Stock may be perishable
  - Stock may be, or may become obsolete
  - Prices achieved in a forced sale of stock may be very low

**Marking - up to 3 marks)**

**(Total 5 marks)**

**Question A3**

The long term financial structure of a company has two principle components:

- Ordinary Share Capital – also known as Equity
- Loan Capital – also known as debt capital or fixed cost capital

- a) Define the calculation of the balance sheet gearing ratio. **(2 marks)**
- b) Explain the term 'highly geared' and give ONE disadvantage of highly geared companies. **(3 marks)**

**(Total 5 marks)**

**Answer A3**

- a) The relationship between the fixed cost loan capital and ordinary share capital of a business.
 
$$\frac{\text{Fixed Cost Loan Capital}}{\text{Ordinary Share Capital}}$$

Alternatively, the proportion of Loan Capital to TOTAL long-term capital. **(Marking – up to 2 marks)**

- b) A relatively large proportion of loan or fixed cost capital, therefore a higher gearing ratio than comparative businesses.

Disadvantages:  
 Interest payments *must* be paid, unlike dividends on ordinary shares  
 Interest rates may be variable and therefore uncertain in the future  
 The loan itself *must* be repaid, possibly at a time which may be difficult for the company  
 Increased risk of insolvency because of the above.

**(Marking – up to 3 marks)**

**(Total 5 marks)**

#### Question A4

Define and briefly explain what is meant by Indirect Cost or Overhead.

(5 marks)

#### Answer A4

A cost which cannot be (easily) identified with a particular unit of output. It is (therefore) often regarded as being incurred by the whole organisation or department.

This contrasts with Direct Costs, such as Labour and Materials, which can be clearly identified to a unit of output or product.

In some costing systems Overheads are attributed or linked to production units on the basis of an overhead absorption rate.

(Marking – up to 5 marks)

#### Question A5

Identify THREE different reasons why businesses would seek to obtain and hold full and detailed information about their customers.

(5 marks)

#### Answer A5

- a) To chase up the payment of overdue amounts
- b) To promote new products and seek further sales
- c) To analyse total Sales by type of customer, location etc.
- d) To provide evidence to authorities that these were legitimate transactions
- e) To trace faulty products which may need to be recalled

(Marking – up to 2 marks per example, maximum 5marks)

(Total 5 marks)

**Question A6**

The Balance Sheet has several different sections:

Fixed Assets	(F)
Current Assets	(C)
Reserves	(R)
Liabilities	(L)

Each of items below would be represented somewhere within a Balance Sheet.

Indicate in which of the four sections of the balance sheet they would appear, you may use the indicated letter codes (above) in your answer.

- a) Taxation that the company is due to pay but has not yet paid.
- b) Debtors.
- c) This year's profit retained within the business.
- d) A motor lorry owned by a business that buys and sells commercial vehicles.
- e) A motor lorry owned by a business that buys and sells fruit and vegetables.

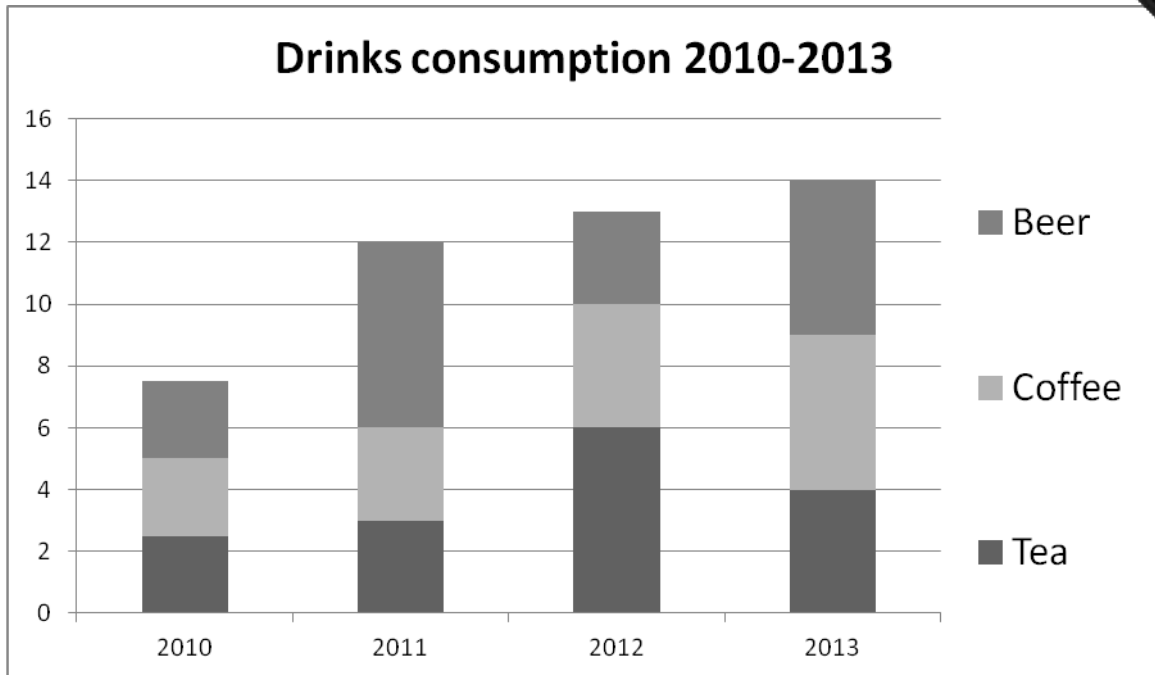
**(5 marks)**

**Answer A6**

- a) L
- b) C
- c) R
- d) C
- e) F

**(Marking – 1 mark per correct part, maximum 5 marks)**

**Question A7**



- a) What specific type of chart is being used here to present the data? **(2 marks)**
  - b) In which year was Beer consumption at its highest? **(1mark)**
  - c) Which drink showed the most consistent growth trend between 2010 and 2013? **(2marks)**
- (Total 5 marks)**

**Answer A7**

- a) Component Bar Chart **(Marking – 2 marks)**  
 (If 'bar chart', 'parallel bar chart' or 'percentage bar chart' **1 mark)**
  - b) 2011 **(Marking – 1 mark)**
  - c) Coffee **(Marking – 2 marks)**
- (Total 5 marks)**

**Question A8**

Define what each of the following acronyms or abbreviations refer to in modern manufacturing:

- a) CAM
- b) TQM
- c) CNC
- d) JIT
- e) CAD

**(5 marks)**

**Answer A8**

- a) Computer Aided Manufacture
- b) Total Quality Management
- c) Computer Numerically Controlled
- d) Just In Time
- e) Computer Aided Design

**(Marking – 1 mark per correct part, maximum 5 marks)**

**(Total 5 marks)**

**PART B. Answer THREE questions only from this Section.**

**Question B9**

- a) Identify and explain THREE benefits of Budgetary Control.

**(12 marks)**

- b) Identify and explain TWO problems associated with Budgetary Control.

**(8 marks)**

**(Total 20 marks)**

**Answer B9**

Appropriately detailed discussions around such topics as;

- a) Enables the monitoring of targets  
 Identifies problems through variance analysis  
 Improves planning and ensures that it takes place  
 Improves accountability of departments and individuals  
 Communicates the organisations strategy  
 Provides a framework for decision making  
 Allocates resources  
 A basis for comparison and performance measurement  
 Increased motivation  
 Forces planning to take place

**(Marking 3 x up to 4 marks per benefit)**

- b) Demotivates those left out of the budget process  
 Constrains decision making when unforeseen opportunities arise  
 Is too concerned with the short-term compliance with a targets  
 May lead to manipulation by managers  
 Creates wasteful internal conflicts  
 Is expensive to administer

NOTE that the above are only indications of some discussion points – these would need to be developed at more length in order to earn full marks.

**(Marking 2 x up to 4 marks per problem)**

**(Total 20 marks)**



### Question B10

Discuss FOUR ways in which national governments may act to improve and encourage business prospects when the economy is depressed.

**(20 marks)**

### Answer B10

Appropriately detailed discussions around such topics as;

- Reduce business taxes
- Reduce personal or sales taxes to encourage purchasing
- Introduce grants or subsidies to encourage business enterprise
- Invest in infrastructure projects to both physically improve access to resources and offer government contracts that trickle down through the economy
- Take steps to ensure interest rates remain low
- Take steps to ensure that inflation is under control
- Take steps to ensure that exchange rates are favourable to businesses
- Improve education and training to ensure skilled employees

NOTE that the above are only indications of some discussion points - these would need to be developed at more length in order to earn full marks

**(Marking - 4 x up to 5 marks per action)**

**(Total 20 marks)**

### Question B11

Movements in interest rates within the economy can have a direct impact on a business and also have indirect effects in changing future strategy.

Discuss FOUR effects on business that may result from increased interest rates within the wider economy.

**(20 marks)**

### Answer B11

Appropriately detailed discussions around such topics as;

Higher costs of servicing existing loans

More difficult to obtain new loans

Decisions to reduce the amount of loan finance

Fall in demand for the goods or services produced due to customer difficulty in obtaining credit

Cheaper imported competitor products due to exchange rate effects

Exports becoming less competitive due to adverse exchange rate effects

Tendency to postpone investment decisions due to interest cost uncertainty

Drive to reduce stocks and dispose of unwanted assets to raise cash without borrowing

Saving becomes more attractive for both businesses and their consumers

NOTE that the above are only indications of some discussion points - these would need to be developed at more length in order to earn full marks.

**(Marking - 4 x up to 5 marks per effect)**

**(Total 20 marks)**

### Question B12

In many organisations the Human Resources function operates an Employee Appraisal Scheme in which each employee meets regularly with their line manager.

From the employers point of view, identify and discuss FOUR purposes of Employee Appraisal.

**(20 marks)**

### Answer B12

Appropriately detailed discussions around such topics as;

- Improves employee performance
- Sets targets for improvement
- Identified issues that are causing tensions in the workplace
- Provides a feedback communication channel
- Increases motivation
- Identify training needs
- Identify potential for promotion
- Provide a basis for wage increases
- Opportunity to set out company objectives
- Provide information check for HR records
- Assesses the effectiveness of the selection/training process

NOTE that the above are only indications of some discussion points - these would need to be developed at more length in order to earn full marks.

**(Marking - 4 x up to 5 marks per purpose)**

**(Total 20 marks)**

**Question B13**

- a) Carefully draw a simple and typical Stock Control Chart that clearly illustrates and identifies:

- The maximum stock level
- The Re-order quantity
- The Lead time
- The Re-order level
- The minimum stock (buffer stock) level
- The typical movement pattern of stock levels
- Each axis of the chart correctly labelled

**(14marks)**

- b) Explain TWO factors that may influence the choice of the Minimum Stock (Buffer Stock) level for a particular stock item.

**(6 marks)**

**(Total 20 marks)**

**Answer B13**

- a) A chart, similar to that on page 492 of the textbook T1, Unit 83 with;

The maximum stock level

**Marking - up to 2 marks**

The Re-order quantity

**Marking - up to 2 marks**

The Lead time

**Marking - up to 2 marks**

The Re-order level

**Marking - up to 2 marks**

The minimum stock level

**Marking - up to 2 marks**

The typical stock movement pattern

**Marking - up to 2 marks**

Correctly labelled axes of the graph

**Marking - up to 2 marks**

**(Subtotal 14 marks)**

- b) The value of the item, small value items will have high minimum stock levels as they do not represent significant investments.  
The criticality of an item in maintaining production flow, essential items will be held in higher quantities to minimise the risk of stopping production.

The lead time, if it is extensive as perhaps with imported items, it may be considered wise to hold extra stock.  
The reliability of the supplier to deliver on time.  
The availability of the item from other sources if necessary.

**(Marking – 2 x up to 3 marks per factor)**

**(Subtotal 6 marks)**

**(Total 20 marks)**

**END OF EXAMINATION**

