

D2 – Diploma The Business Context of Information Systems**ANSWERS****PART A****ANSWER A1**

Low pay
Few promotion opportunities
Poor working conditions, bullying, harassment
Poor selection process that has placed the wrong individuals into inappropriate posts.
Favourable economic conditions that are attracting workers elsewhere
Few training opportunities

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

(Total 5 marks)

ANSWER A2

- a) An approach to budgeting which uses the previous year's budget or previous actual figures as its starting point and focuses on changes or increments applied to that historical base.
- b) A system of budgeting in which managers must justify the need for each package of spending.
Unlike the incremental approach, ZBB does not recognise existing or previous situations and challenges the need for any expenditure, forcing comparison with radical alternatives - it is therefore more likely to reveal unnecessary costs, waste, budgetary slack and inefficient operations.

(2 marks)

(3 marks)

(Total 5 marks)

ANSWER A3

Transfer of Capital/Foreign Direct (Inward) Investment
Transfer of knowledge, technology, expertise
Employment opportunities in the host country
Taxes paid to the host government
Increased consumer choice in the host country
Economic Growth in host country
Increased exports from host country

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

(Total 5 marks)

ANSWER A4

Advertising campaigns to get their message across

Organising a boycott of goods and services

Lobbying politicians

Protest meetings, marches etc.

Issuing press releases, statements and policies, especially when they have gained a respected reputation

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

(Total 5 marks)

ANSWER A5

a) £GBP 7200 $((240 \times 50) - 4800)$

b) £GBP 1800 $(7200 - 5400)$

c) 60% $7200/12000$

d) 15% $1800/12000$

(Marking – part a) 2marks (1 mark only for calculation of total sales but incorrect gross margin), b), c) and d) 1 mark each)

(Total 5 marks)

ANSWER A6

a) Business to business (B2B) is where a business is aiming its marketing efforts at other businesses (which are its customers) rather than directly at the general public or end-user.

(Total 2 marks)

b) Niche Marketing is where a business is aiming their marketing effort at a small specialist segment of the whole market. A segment which larger companies may have left unfulfilled believing it to be uneconomic for them.

(Total 3 marks)

(Total 5 marks)

ANSWER A7

2.7 years

(Other marks; 4 marks for 2.6 years, 1 to 3 marks for evidence of correct approach)

(Total 5 marks)

ANSWER A8

I – D – L – T – P

- I before D (1mark)
- D before L (1mark)
- L before T (1mark)
- T before P (1mark)
- All correct (1mark in addition)

(Total 5 marks)

ANSWER B9

- Negative effect on the demand for the products of business due to the reduced incomes of consumers.
- Diversion of government spending towards supporting the unemployed and away from beneficial capital projects.
- Loss of skill levels in the long-term unemployed, which will be an issue when demand improves and recruitment starts.
- Problems with the current recruiting process when dealing with very high numbers of applicants.
- Social unrest and higher crime levels leading to increased security costs and potential damage to infrastructure.
- Negative impact on the broader economy; exchange rates, interest rates, foreign investors deterred by negative perceptions of the region.
- Poor economic conditions create uncertainty, a lack of confidence in the future and therefore a reluctance of businesses to invest or expand.

(MARKING 4 x up to 5 marks for well developed reasons)

(Total 20 marks)

ANSWER B10

a)

- Tax Authorities to assess liability to pay tax and duty.
- Auditors to allow them to certify that the organisation is accurately complying with the legal requirements to produce accounts.
- Registrar of Companies to comply with any legal requirement to submit published accounts which may then be made available to the general public.
- Bankers or Lenders to allow them to consider or to reassess the risk in lending money to the company.
- Suppliers to assess the risks of extending trade credit to the organisation.
- Competitors to analyse the business and to compare it with their own.
- Media to provide a source of information for business reporting.
- Investment Analysts to allow them to assess and possibly recommend the business as a suitable investment.
- Government to monitor the progress of the economy.

(MARKING 4 x (1 mark per heading and up to 4 further marks for explanation of need))

(Total 20 marks)

ANSWER B11

a)

To deal with fluctuations in working capital requirements which are temporary and will be reversed over a short period of time.

Examples:

An unusually large sales order requires a temporary higher level of investment in material stocks.

A seasonal change in activity levels.

An unusually large sales invoice has been issued to a customer who will pay, but only after taking an extra two months credit.

A supplier has agreed to a significant cut in prices but, as a condition, they require that they are paid immediately upon delivery, instead of at the end of the month.

Other examples acceptable, but not to finance long-term assets/projects.

**(MARKING temporary nature: up to 2 marks
working capital related: up to 2 marks
example up to 2 marks, but max 5 marks)**

b)

Bank Overdraft

An arrangement with the bank such that the current account can be overdrawn up to an agreed limit and interest paid only if and when the account is overdrawn.

Bank loan

A formal agreement with the bank to borrow a specified amount to be repaid within a defined period or by agreed instalments. Interest is charged on the whole amount borrowed even if it turns out that the lender could have borrowed a lesser amount.

Hire Purchase

Equipment can be acquired by paying a deposit followed by instalments rather than outright purchase. Often an intermediary Finance House is used and ownership only passes to the user upon payment of the final instalment.

Leasing

Similar to Hire Purchase, the lessee acquires the use of the equipment in return for regular payments, but, unlike Hire Purchase, ownership does not pass to the lessee.

Factoring or Invoice Discounting

The whole Sales Ledger operation can be outsourced or an individual sales invoice can be 'sold' for a high proportion of its value. Many other variations are available but essentially enabling the value of debtors to be turned into cash *earlier* than would normally be the case in exchange for fees and commission.

Trade Bills / Bills of Exchange

A promissory note issued by a debtor, to pay an agreed amount at a specified date. The holder has the option of selling the bill at a discount to a financial institution.

Credit Cards

Used by small businesses for their flexibility and convenience but limited in the amount that can be accessed and subject to high interest charges.

**(MARKING 3 x (1 mark per heading and up to 4 further marks for explanation
= 15 marks) (Total 20 marks)**

ANSWER B12

a)

- | | | | |
|------|-----------------------------|---------------------|------------------|
| i) | $1500000/600000$ | $= 2.5$ | (2 marks) |
| ii) | $1500000 - 400000/600000$ | $= 1.83$ | (3 marks) |
| iii) | $2000000/400000$ | $= 5.0$ | (3 marks) |
| iv) | $600000/3000000 \times 365$ | $= 73 \text{ days}$ | (3 marks) |
| v) | $(800000 - 200000)/6000000$ | $= 0.10$ | (3 marks) |

b)

- Underlying differences in the nature of the business. Although they may appear to be similar businesses operating in the same sector, it is likely that there are significant differences which are difficult for analysts to discover from the outside.
- Timing differences. The year-end dates of the two balance sheets may be different, causing differences which arise from the time of year, or season, rather than the business itself.
- Differences in accounting policies. e.g. depreciation policies, the extent to which potential liabilities and extraordinary losses are recognised, the point at which sales are recognised etc.
- Asset ownership differences. Some firms have a policy to *buy* assets, others prefer to *lease*, leading to different numbers in the P&L and BS.
- Untypical Balance Sheet. The BS is a snapshot in time, stocks, debtors and cash can be completely different a few days before or after. This can give a misleading impression and some firms will deliberately 'window dress' their BS to give a better appearance on one day.
- Qualitative information is ignored Numbers cannot easily convey or reflect the reputation and quality of the business.

(MARKING 2 x up to 3 marks per limitation – maximum 6 marks)**(Total 20 marks)**

ANSWER B13

a)

A	20	(2 marks)
B	(45)	(2 marks)
C	20	(1 mark)
D	(25)	(1 mark)
E	30	(1 mark)
F	(25)	(1 mark)
G	5	(2 marks)

(10 marks)

b) Because profit is not the same as cash. Over the longer term the profit and cash positions will tend to come together but in shorter perspectives they can often be seen as disconnected.

Example: Profit is measured when goods are sold but if most of those sales are on credit, that profit is recorded before the cash from those sales is collected, therefore the business can correctly be described as profitable but can be short of cash.

Example: Equally, goods purchased for resale are not charged against profits until they are sold, but their supplier may have to be paid at an earlier date putting a strain on cash flow but not showing any effect on profit.

Example: Some costs, such as Rent are often payable *in advance* – the effect on cash flow is immediate – the effect on profit is shown over a long period of time.

Example: The borrowing or lending of cash has no immediate impact on profits but will immediately change the cash position.

**(MARKING up to 3 marks for general explanation,
(up to 3 marks per example) x 2,
limited to 7 marks maximum)**

c) A situation where a business is *expanding too rapidly*, particularly where it is selling on credit terms and its financial planning may not have anticipated the need to pay for increasingly high levels of purchases *before* collecting the cash from earlier, and lower, levels of sales.

(3 marks)**(Total 20 marks)**

Matrix of Los and ACs

Question number

LO	AC	A1	A2	A3	A4	A5	A6	A7	A8	B9	B10	B11	B12	B13
1	1.1			X										
	1.2										X			
	1.3													
	1.4													
2	2.1				X									
	2.2													
	2.3									X				
3	3.1												X	
	3.2								X					
	3.3													
	3.4													
4	4.1	X					X							
	4.2													
	4.3													
	4.4													
5	5.1													
	5.2		X											
	5.3													X
	5.4													
	5.5													
6	6.1											X		
	6.2													
	6.3							X						