



22135014



**BUSINESS AND MANAGEMENT
STANDARD LEVEL
PAPER 2**

Tuesday 21 May 2013 (morning)

1 hour 45 minutes

INSTRUCTIONS TO CANDIDATES

- Do not open this examination paper until instructed to do so.
- Section A: answer one question.
- Section B: answer two questions.
- A calculator is required for this examination paper.
- A clean copy of the ***Business and Management formulae sheet*** is required for this examination paper.
- The maximum mark for this examination paper is [60 marks].

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SECTION A

Answer **one** question from this section.

1. Office Cleaners (OC)

Sayaka Toguchi operates an office cleaning service, which is in the tertiary sector. When office workers are going home, she arrives at their offices to clean them. At present, she has four clients, with commercial offices all located in the same building. She operates as a sole trader and has no employees. Her business name is *Office Cleaners (OC)*.

Sayaka has always liked the small size of her business. However, when a large bank on the ground floor of the same building where her current clients are located offered her a contract to clean its offices, she decided to reconsider the size of her business. The bank would loan her \$2500 to purchase new cleaning equipment. The bank would also offer her a two-year contract paying her \$6000 every second month. Sayaka would need to employ one new worker to clean the bank.

For the bank contract, Sayaka forecasted the following monthly cash outflows:

- salary for one new employee: \$2000
- cleaning products (soap, detergent): \$200
- payment on equipment loan: \$150 payable from the second month
- business taxes and overheads: \$300.

Before the bank loan she currently has personal savings of \$1600 in the bank.

Employee absence also worries Sayaka. How will she get all the offices clean if her new employee is absent from work due to illness? Agencies can provide temporary employees but they cost \$300 a day per worker.

- (a) Define the term *tertiary sector*. [2 marks]
- (b) Identify **two** features of a sole trader. [2 marks]
- (c) (i) Prepare a monthly cash-flow forecast for the bank contract for the first six months assuming Sayaka employs one new worker. [5 marks]
- (ii) Calculate the impact on the monthly closing balance of the six month cash-flow forecast if the new employee is absent from work due to illness for two days per month. Assume Sayaka still pays the ill employee a monthly salary of \$2000. [2 marks]
- (d) Comment on the impact that the bank contract will have on the cash flow of *OC*. [4 marks]
- (e) Analyse the impact on Sayaka's role if she expands the size of her business. [5 marks]

2. Khalil Damascus Supplies (KDS)

Khalil Damascus Supplies (KDS) sells construction materials, such as cement and bricks, to the business-to-business (B2B) market. It is located in an industrial area in Damascus. Its manager is Ahmed Khalil.

Large construction companies have their own cranes. However, small construction companies often do not. Many small construction companies have asked *KDS* if it could offer a crane rental (hire) service.



[Source: http://en.wikipedia.org/wiki/File:Truck-mounted_crane_building_a_bridge.jpg]

Ahmed calculated that purchasing two cranes, costing \$100 000 each, would be a worthwhile investment. Rental income from the cranes would enable *KDS* to break-even on the equipment. Ahmed believed that future profits would come from an increase in the sales of construction material to new customers attracted to *KDS* because of its crane rental service.

Selected financial information before *KDS* purchases the cranes, as at 31 May 2012 (all figures in \$):

Cash	55 000
Cost of goods sold	3 000 000
Creditors	45 000
Debtors	X
Expenses	2 300 000
Fixed assets (building and equipment)	350 000
Loan capital	40 000
Retained profit	215 000
Sales revenue	5 600 000
Share capital	200 000
Short-term borrowing	10 000
Stock	50 000

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(Question 2 continued)

Ahmed must decide who will operate the cranes. There are three options:

- First, train some current employees at *KDS*. Several have said that they are interested.
- Second, increase the number of employees by hiring two experienced and licensed crane operators.
- Third, rent only to customers who themselves employ licensed crane operators. However, many small construction companies do not employ licensed crane operators.

Ahmed likes the idea of training his own employees, as it would give them additional job skills, job enrichment and more experience with construction sites. However, he is concerned about the costs of training and additional insurance.

- (a) Describe **one** appropriate source of finance **other than** a bank loan that *KDS* could use for the purchase of the cranes. *[2 marks]*
- (b) Define the term *retained profit*. *[2 marks]*
- (c) (i) Using relevant information from the table, construct a balance sheet for *KDS* as at 31 May 2012 (before the purchase of the cranes) and calculate debtors (figure X). *[5 marks]*
- (ii) Using relevant information from the table, calculate the gearing ratio **and** the gross profit for *KDS* before the purchase of the cranes (*show all your working*). *[4 marks]*
- (d) Comment on the financial impact on *KDS* if Ahmed uses a bank loan to fund the purchase of the cranes. *[2 marks]*
- (e) Contrast the **three** options of who will operate the cranes. *[5 marks]*

SECTION B

Answer **two** questions from this section.

3. Brandon Canoes (BC)

Brandon Canoes (BC) manufactures and sells canoes in the Pacific Northwest of North America, where canoeing and fishing are popular hobbies. Founded in 1951 by Brandon Tyler, *BC* is a private limited company owned and operated by members of the Tyler family. There is strong brand awareness of *BC* in the regional canoeing and fishing community.

Primary market research conducted by *BC* showed that some people wanted smaller canoes that could be easily transported. *BC*'s factory has sufficient space to expand its product range to include smaller canoes. *BC* can easily manufacture 1000 smaller canoes per year in addition to current production. *BC*'s current Chief Executive Officer (CEO), Ashton Tyler, calculated that the costs associated with these smaller canoes would be:

- fixed costs: \$300 000
- variable costs per unit: \$1900
- sales price: \$2400.

Ashton thought that the smaller canoes would appeal to two new market segments:

- young people (in their 20s) who wish to exercise in an environmentally friendly way
- older people (in their 50s and 60s) who want forms of exercise less physically demanding than running or team sports like football (soccer).

The Marketing Director, however, warned that the target markets for the smaller canoes are probably not aware of the *BC* brand. He added that marketing costs would be higher than Ashton anticipated. It would also take time to generate sales of the new smaller canoes. Also, because of the economic recession, some customers were taking longer to pay. Because of the potential marketing issues and the slower payments, *BC* needs to plan for additional working capital. *BC*'s shareholders are, however, not convinced. They view the smaller canoes as a largely new product for a new market. They would rather pursue extension strategies to the existing product range.

- (a) Identify **two** ways in which the market for canoes may be segmented. [2 marks]
- (b) Calculate the break-even quantity for the smaller canoes (*show all your working*). [2 marks]
- (c) Explain how the “marketing issues and the slower payments” would create a need for additional working capital. [4 marks]
- (d) Apply the Ansoff matrix growth strategies to *BC*. [5 marks]
- (e) Discuss Ashton’s proposal to start manufacturing and selling smaller canoes. [7 marks]

4. Kabaret

Matt Fidler and Shailah Hitta met at university, where they both studied drama. They have now just graduated. As they work very well together as artists, they want to turn their talent into their source of income. They have decided to set up their own theatre company called *Kabaret*. It will be a partnership, with Matt and Shailah as equal partners. They arranged an appointment with Mr Lloyd, an independent consultant, for financial advice.

They first discussed the main problems that *Kabaret*, as a business start-up, may face. Because Matt and Shailah know many people who have set up theatre companies, they feel ready to deal with possible problems such as developing a customer base and branding. Matt and Shailah have many ideas about the plays they want to stage and the theatres where they want to perform. However, they do not know how much tickets should cost. Mr Lloyd explained the two types of pricing strategy that they could use: cost-based pricing or competition-based pricing. Matt and Shailah realise that they have to do more research about their own costs and about their local competitors.

Mr Lloyd has now asked them to prepare a business plan that includes a decision about their pricing strategy as well as a cash-flow forecast. Matt and Shailah will meet him again in three weeks in order to further discuss the creation and launch of *Kabaret*.

- (a) Define the term *branding*. [2 marks]

- (b) Explain the importance of the information in *Kabaret's* business plan for **one** internal stakeholder and for **one** external stakeholder. [6 marks]

- (c) Analyse the main problems that *Kabaret*, as a business start-up, may face. [5 marks]

- (d) Analyse the appropriateness of the two pricing strategies Mr Lloyd suggests and recommend to Matt and Shailah which one to use for the tickets to *Kabaret's* shows. [7 marks]

5. Volunteering (le bénévolat, voluntariado)

Volunteering is the practice of working without payment. In many countries, volunteering is becoming more common. Many volunteers work in non-profit and non-governmental organizations (NGOs), such as charities and pressure groups. They may want to support a particular cause, for example human rights, international aid, or emergency rescue operations after a natural disaster. Some volunteers work in profit-based organizations, for example in the arts: theatres, cinemas and museums have always employed volunteers. Volunteering in schools is also frequent, such as with parents or community members giving some of their time to help the school fulfill its educational mission. The CAS requirement of the IB Diploma can be seen as a form of volunteering, as a service may include community and social service activities without payment in return.

People who wish to work as volunteers come from all backgrounds: young people who need practical experience to strengthen their CV (résumé); unemployed people who use it to keep motivated and active whilst looking for a job; part-time employees who want to help the community; even retired people who use it as an opportunity to socialize. Some volunteers do it for just a few hours a week, while for others it becomes a full-time activity.

“Employing volunteers requires workforce planning” explains Sylvia Warnecke from the *International Union of Volunteers*. “Most organizations take the professional development of their volunteers seriously, for example by offering training to learn new skills. They do not pay salaries, but they can offer a range of non-financial rewards. For organizations, training volunteers is a form of investment.”

- (a) Define the term *pressure group*. [2 marks]
 - (b) Explain the meaning of Sylvia’s statement that “for organizations, training volunteers is a form of investment”. [2 marks]
 - (c) Distinguish between **two** forms of non-financial rewards that may be used by organizations to motivate volunteers. [4 marks]
 - (d) Apply Maslow’s hierarchy of needs to the situation of an unemployed person who volunteers at a local non-profit organization. [5 marks]
 - (e) Discuss the advantages and disadvantages of employing volunteers in profit-based organizations. [7 marks]
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