

Business management
Standard level
Paper 1

Thursday 8 November 2018 (afternoon)

1 hour 15 minutes

Instructions to candidates

- Do not open this examination paper until instructed to do so.
- A clean copy of the **business management case study** is required for this examination paper.
- Read the case study carefully.
- A clean copy of the **business management formulae sheet** is required for this examination paper.
- Section A: answer two questions.
- Section B: answer question 4.
- A calculator is required for this examination paper.
- The maximum mark for this examination paper is **[40 marks]**.

Section A

Answer **two** questions from this section.

1. (a) Describe **two** elements of a marketing plan (line 21) for *AFA*. [4]
(b) With reference to *AFA*, explain why applying appropriate principles and ethics of accounting practice is important. [6]
2. (a) Describe **two** external stakeholders of *AFA*, **other than** customers. [4]
(b) With reference to *AFA*, explain the importance of branding. [6]
3. (a) With reference to *AFA*, outline **one** benefit **and one** cost to Sam of opening a new e-commerce website (lines 51–52). [4]
(b) Distinguish between the leadership styles of Sam and Finn. [6]

Section B

Answer the following question.

4. *AFA* was at a critical point. Sam and Finn had not fully resolved their disagreements. They seemed to be constantly arguing but Sam could also see that new issues were emerging. At their most recent meeting in early 2018, Finn provided the following financial information to illustrate the declining trend in gross profit margin.

Table 1: Selected financial information for *AFA*

| Year | Gross profit | Sales revenue |
|------|--------------|---------------|
| 2016 | 142 888 | 2 164 486 |
| 2017 | 124 211 | 2 400 625 |

In addition, the recruitment of new staff was becoming a problem, as the wages that *AFA* offered were much lower than fair trade competitors. In a meeting between Sam and Finn, they argued over the best way to financially reward and motivate newly recruited workers, given the lower wages paid by *AFA*.

Finn argued for a reward system based on fringe payments (perks), as this was being offered by *AFA*'s main competitors, the supermarkets. Sam countered that *AFA* should form a cooperative involving all physical stores. He argued that creating a worker cooperative could give all members a sense of community and fulfillment and motivate them so that all members of the cooperative would benefit. There would also be additional stakeholder benefits. Finn argued that a worker cooperative was too difficult to organize and operate and would not solve the problem of recruiting staff.

In the meantime, *AFA* was continuing to attract a good deal of publicity. Sam had appeared on a national television show about young, innovative entrepreneurs. After the television show ended, one very large international retailer with a strong online presence contacted Sam about the possibility of a takeover. Sam initially refused, but as the details of the takeover became clear he started to seriously consider the opportunity. By selling the business Sam would have enough fresh capital to start new, innovative businesses and make some of his other visions and ideas into reality. In addition to the corporate social responsibility (CSR) *AFA* was generating, the takeover would give *AFA* access to other intangible assets. However, the international retailer had indicated that it could not guarantee keeping all existing and newly recruited employees and managers. Finn and Kim were both very worried that Sam would even contemplate the takeover, which they felt was an act of betrayal to all the stakeholders of *AFA*.

- (a) Define the term *intangible asset*.
[2]
- (b) (i) Calculate the gross profit margin of *AFA* for 2016 **and** 2017.
[2]
- (ii) Explain **one** possible reason for the trend in gross profit margin for *AFA* between 2016 and 2017.
[2]
- (c) Explain **one** benefit **and one** cost to *AFA* of using fringe payments (perks) to financially reward staff.
[4]
- (d) Discuss whether Sam should accept the offer of a takeover.
[10]